




3 1761 11767866 4

CA1
MI 800
-80U53

GOVT



Digitized by the Internet Archive
in 2023 with funding from
University of Toronto

<https://archive.org/details/31761117678664>

CAI
MI 800
80453

6

Unemployment Insurance in the 1980s

A report of the Task Force
on Unemployment Insurance
prepared for the Minister of
Employment and Immigration
as a contribution to a process
of consultation with provincial
governments and organizations
representing different elements
of the private sector.

July 1981



Employment and
Immigration Canada

Emploi et
Immigration Canada

Unemployment Insurance in the 1980s

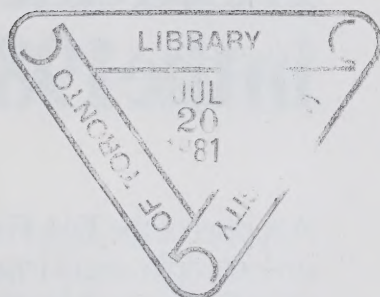
A report of the Task Force
on Unemployment Insurance
prepared for the Minister of
Employment and Immigration
as a contribution to a process
of consultation with provincial
governments and organizations
representing different elements
of the private sector.

July 1981



Employment and
Immigration Canada

Emploi et
Immigration Canada



Disponible en français sous le titre
«L'Assurance-chômage dans les années 1980»

© Minister of Supply and Services Canada 1981

Cat. No. MP 15-3/2-1981E

ISBN 0-662-11596-1

Cat No. WH-1-001E.

Foreword

This report is the product of the Task Force on Unemployment Insurance, which was established in July, 1980, within the Department of Employment and Immigration, to review recent experience with the Canadian system of unemployment insurance and to consider the types of changes that would be appropriate in the light of factors likely to influence the operation of Canadian labour markets in the 1980s.

At the time when the Task Force was set up, it was understood that its findings would be made widely available for purposes of consultation with provincial governments and organizations representing different elements of the private sector. That understanding has been maintained.

It follows that the suggestions and proposals contained in the report do not represent the policy of the Government of Canada. Based on analytical work undertaken by the Task Force for the undersigned, they are put forward at this time as a contribution to the process of consultation already mentioned—a process to which the Government is committed.

A handwritten signature in dark ink, appearing to read 'Lloyd Axworthy', with a stylized flourish at the end.

Lloyd Axworthy
Minister of Employment
and Immigration

Table of Contents

1. Introduction	1
2. The Evolution of Unemployment Insurance	5
Chronological overview	5
Evolution of specific design features	6
Perspective	6
3. The Labour Market Environment	9
Changes, 1940-80	9
Employment and unemployment in the 1940s	9
Demographic changes after the 1940s	9
Regional dimensions	13
The 1980s	20
Labour force	20
Employment	20
The adjustment process	21
Implications for the UI program	21
4. The Income Protection Role of UI	25
UI and income redistribution	29
Income redistribution of UI by individual income class	29
Income redistribution of UI by family income class	29
Interprovincial and inter-regional income transfers through UI	31
Role of UI in economic stabilization	32
Summary	33
5. The Labour Market Role of UI	35
The intended effects of the UI program	35
Some negative effects on work patterns	36
Evidence of UI's impact on unemployment	37
Other program evidence on the impact of UI	38
Evidence from behaviour of UI exhaustees	38
Effects of UI on wages, prices and production costs	38
UI and mobility	39
Summary	41
6. Program Objectives And Implications for Design	43
7. Entrance Requirements and Benefit Structure	45
Entrance requirements and benefit duration	45
Description of present provisions	45
Broad directions for redesign	45
Program complexity	46
Effects of program design on work patterns	47
Equity — special claimant groups	51
Regional differences in program design	52
Summary and possible design	55
Other benefit structure features	57
The basis of benefit payment	57
The benefit rate	58
Maximum weekly insurable earnings	60
Working while on claim	61

8. Voluntary Quits and Other Disqualification Provisions	63
✓ 9. Special Benefits	67
Maternity benefits	67
The special maternity conditions	68
The “magic 10”	68
Section 46	69
Limitation to first 15 weeks	69
The waiting period	69
The 20-week entrance requirement	69
Physical incapacity as a basis for benefit payment	69
Sickness benefits	71
Special severance benefits	71
✓ 10. Insurable Employment and Earnings	73
Problems of design	73
Determination of insurable employment	73
Treatment of earnings	74
Administrative problems	76
Division of responsibilities	76
Employers’ reporting system	77
Premiums paid as basis for calculation of benefit rate	77
Gross earnings as basis for calculation of benefit rate	78
Normal earnings as basis for calculation of benefit rate	78
Use of T-4 data	78
11. Relationship Between UI and Other Labour Market Programs	81
Current developmental uses	81
Training	81
Training allowances in the waiting period	81
Training allowances during disqualification	81
Extended benefit period for claimant/trainees	82
Work sharing	82
Job creation	82
Future directions	83
Future linkages between UI and training	84
Increased emphasis on long-term employment	84
Possible employment development projects	84
Equity investment	84
Extension of season of employment	85
Public sector employment	85
Summary	85
12. Financing Issues	87
Tripartite financing and the sharing of costs	87
Redistribution of income	89
Benefit repayment provisions	91
Macro-economic stabilization	92
Experience rating of UI premiums	95
Labour market adjustment effects	95
Program complexity and costs	96
Equity concerns	96
13. Summary and Indicative Package	99
The indicative package	100

Appendices

✓ I	Terms of Reference: The Unemployment Insurance Review Task Force....	105
II	A Brief Description of the Unemployment Insurance Program in 1981	107
III	UI Regulations: Earnings for Benefit Purposes (April, 1981)	111
IV	UI Act and Regulations: Insurable and Excepted Employment (April, 1981)	115
V	UI Act: Entrance Requirements for Regular Benefits (1981)	121
VI	Description of UI Micro-Simulation Model	123
VII	Basic Assumptions for Estimating the Financial Impact of the Indicative Package	125
VIII	Members of the Unemployment Insurance Review Task Force	127

Chapter One

Introduction

Few government programs affect as many people in Canada or elicit as wide an array of reaction as does Unemployment Insurance¹. Most workers in Canada contribute to UI: over 11 million workers help finance the program through premium payments. Each year these contributions, along with those of employers and the federal government, finance benefits which in 1980 totalled about \$4.4 billion to over two million claimants.

Within Canadian society, individual and group perspectives on UI vary extensively. They are coloured by personal circumstance, unemployment experience and other factors. Federal legislative initiatives in the last decade in particular have provoked widely differing views regarding the program. This became evident from public attitude studies, submissions by various organizations, provincial government views, representations by Members of Parliament and the positions of political parties. Employee representatives, for example, have consistently opposed any retrenchment of the provisions in the 1971 legislation. Employer representatives, on the other hand, have as consistently supported curtailment of the program, often stating that legislative measures of the 1970s did not go far enough in tightening up the program. The provinces were concerned about federal government consultation on proposed changes. They also raised the issue of any negative impact of amendments on provincial social assistance costs. More recently, these concerns broadened to include the possible adverse impact of UI changes on provincial economies, and attempts were made to propose alternatives. Since the mid-70s, women's rights and human rights issues have assumed increased significance.

Unemployment Insurance involves people; individuals and groups hold many divergent points of view regarding the program. This suggests the need for UI to reflect the needs of the existing economic and social environment, taking into account the views of governments, the private sector and the other major representatives described above.

The Speech from the Throne in April 1980 also recognized the need for new economic policies appropriate to the emerging environment of the 1980s. In particular, the economic uncertainties of the decade required the recognition that social and economic problems had to be addressed in new ways, consistent with a growing concern for government spending restraint. Emphasis was placed on industrial adjustment, and labour market policies were seen as a critical element in this new strategy. As a result, in the spring of 1980 the government asked Parliament to establish the Special Committee on Employment Opportunities for the 1980s, to examine some aspects of labour market policies. To look at other labour market policy dimensions, the government established two Task Forces within the Department of Employment and Immigration. One of these was asked to examine the Unemployment Insurance program, the second to assess other federal policies designed to influence the operation of labour markets. The reports of these groups were expected to represent the first step in a process leading to the redesign of federal labour market policies to meet the needs of the 1980s.

This report presents the findings of the federal government's Unemployment Insurance Review Task Force. It has been prepared as a contribution to a process of consultation in which the Government of Canada will be seeking the views of the private sector and provincial governments before endeavouring to determine an appropriate form and shape for the UI program in the 1980s.

Members of the UI Review Task Force were drawn from branches of Employment and Immigration. They are identified in a list appearing in Appendix VIII.

The immediate reasons for the UI review are in part rooted in the extensive and rapid changes which occurred in the program during the 1970s. The 1971 UI Act, introduced in a period of social expansiveness, was deliberately designed to accommodate workers with a short work history and intended to stabilize their labour force attachment. This led to a substantial extension of the program. Since then, concern about the program's

¹ Because of the number of references to Unemployment Insurance in the report, it will be referred to as "UI" for convenience.

costs and labour market impact has led to further program reviews and legislative changes to control the expansion of program costs and to ensure a more positive labour market impact.

Widely differing public and government reactions to these UI program changes highlighted a number of specific concerns about the program which contributed directly to the initiation of the current review.

The first of these was the growing concern that the UI changes of the 1970s had resulted in a very complex program which was both difficult for the public to understand and complicated to administer. This complexity extended both to the specific provisions of UI and to the basic objectives of the program as a social insurance measure. There was clearly a need to review and clarify these objectives, particularly in the light of labour market changes expected in the 1980s. It was also necessary to review specific program provisions to make them easier to administer and understand, and to improve speed of service to the public.

A second continuing concern was the issue of program equity. This related to the fairness with which the program treated its claimants, especially those in specific groups or regions. Also involved in this connection was the extent and manner in which program benefits were distributed.

A further issue was the continuing question of the impact of UI on labour market behaviour. Although program changes in the late 1970s had helped strengthen the program's work incentive effects, questions persisted about its labour market impact, not only on work incentives but also on labour mobility.

A final concern related to the cost effectiveness of the program. UI changes in the preceding five years had reduced program costs considerably, but in an ongoing atmosphere of government spending restraint it was important to ensure both that overall UI expenditures were controlled and that these funds were spent effectively.

In addition to these four program-specific concerns, the Task Force also had to recognize the important relationship between the program and the social and economic environment in which it operated. The 1970s witnessed important changes in the Canadian labour force. Rising numbers of young people and women contributed to a continuing increase in multi-earner families and to some reduction in the impact of unemployment on family incomes. In addition, differing patterns of regional employment growth contributed to continuing and at times increased geographic disparities. In the 1980s, although some of these tendencies will

continue and others will not, their implications for unemployment and for UI need to be explored. It has therefore been essential to review UI not only in relation to the specific concerns described above, but also to make sure that the program is appropriate in the light of the broader labour market and social changes anticipated in the 1980s.

More specifically, the main responsibilities of the Task Force as outlined in the terms of reference were:

- to trace the evolution of the Unemployment Insurance program from 1940 to 1980,
- to analyse the labour market environment in the recent past, present and future,
- to assess the impact of unemployment insurance on the Canadian economy and on Canadian society, particularly since 1971,
- to analyse specific areas in the current legislation which may result in inequities, negative impact on the labour market or administrative difficulties,
- to identify options for program change with a view to establishing for the 1980s more coherent objectives related to social insurance principles and designed to help match unemployed workers with jobs.

These main elements of its terms of reference² meant that the review was to be primarily policy-oriented, with analysis contributing to the development of policy directions and program design features appropriate to these. While some operational policy questions were to be discussed, in general these were not the major focus of the review. Such issues, extremely important to the operational effectiveness of the program, were seen as the subject of ongoing review and improvement by program managers.

The first part of the report begins with an examination of the legislative and labour market contexts in which the current review has taken place. The income protection and labour market roles of the program are then discussed, as are specific problems related to inequities, administrative complexity, and adverse impact on the operation of the labour market. General conclusions are then drawn regarding the objectives of the program and apparently desirable directions for program redesign in the anticipated environment of the 1980s.

The second part examines individual program features and identifies specific changes that would improve program performance, in a manner consistent with the

² Additional details on the terms of reference may be found in Appendix I.

objectives of the program and the general directions of redesign suggested in the first part. These specific design options are discussed and compared. The final section presents an indicative package of possible changes.

The report constitutes an initial contribution to a wide-ranging process of consultation regarding the

appropriate role and design of UI for the 1980s. The suggested directions for change, based on the analysis and judgments of the Task Force, are not intended to reflect policy decisions. They are meant instead, to help identify relevant issues as a basis for discussions. Final decisions will be taken at a later date, after the consultative process is completed.

Chapter Two

The Evolution of Unemployment Insurance

Chronological overview

The UI program was originally designed in 1940 to promote the economic and social security of workers in Canada by providing them with income protection from the time they left one job until they found another. It was meant to reflect a strict application of social insurance principles and objectives. Workers expected to experience recurrent unemployment (high risk workers) and those whose permanent jobs were virtually assured (low risk workers) were not covered.

The 1940s can be characterized as a period of “growing pains” for the new program. This resulted in adjustments to contributions and benefits to fit changing circumstances. Numerous amendments resulted, for example, in increased coverage of workers — from 42 per cent of the labour force in the first year of the program to 50 per cent by 1950. Although coverage was gradually expanded, the adherence to social insurance principles was of prime continuing concern. When coverage was extended to seasonal industries, for example, workers were not permitted to collect benefits in the “off-season” unless they met special conditions. Demands for benefits in the decade were small, partly because of continued low unemployment for most of that time. As a result, the fund established to finance the program grew steadily over the course of the decade.

In the 1950s, UI was marked by a series of readjustments in response to the needs and pressures of changing circumstances. These were partly due to increased demands on the UI program which occurred with the onset of relatively high unemployment. By the end of the decade, coverage had expanded considerably, and became as universal as it would be for the next ten years. The level of earnings covered was increased and winter seasonal benefits for people who exhausted or could not qualify for regular benefits were established. This reflected the prevailing view that expanding and enriching UI would cause no permanent damage either to the program or to the labour market. This attitude seemed to be based on experience suggesting that economic recessions tend to remain only for brief periods.

The decade of the 1960s was one of greater legislative stability than the previous two decades. Fewer changes were made and most of these were necessary contribution and benefit adjustments responding to changes in earnings and living costs. But there were clear signs of dissatisfaction with the program. These resulted in important initiatives to review the entire program and speculation that fundamental changes were in the offing.

For UI, the 1970s brought a series of major developments. In 1970, a new, more generous program design was proposed to make the program more relevant to anticipated socio-economic conditions over the next ten years. The new UI Act passed in 1971, insured more workers — about 96 per cent of salaried and hourly-paid workers, excluding the self-employed, compared to 80 per cent before 1971, and covered the contingencies of sickness, maternity and retirement. Entrance requirements were lowered, and benefit rates and availability were made more generous. The 1971 Act also introduced a new benefit structure under which benefits became payable in phases based on a combination of work attachment and national and regional unemployment rates.

The expanded features of the 1971 Act combined with changing labour market and economic conditions, particularly higher unemployment, soon resulted in a significant and unanticipated increase in program costs. From 1970 to 1975, annual program costs rose almost five-fold, from \$730 million to over \$3.3 billion (Table 2-1). The federal government's share rose ten-fold in the same period, from \$164 million to over \$1.7 billion. Along with this came an increased concern about the impact of the program on the labour market. Questions were raised about work incentives, about income stabilization and redistribution and about the effectiveness of the program administration.

As early as 1973, changes were introduced in the new program to enhance work incentives and control program costs. Further changes occurred after 1975, in the form of a series of legislative amendments to contain expansion of the program and to ensure a more positive

Table 2-1

UI expenditures 1970-1981

Year	Total program costs	Govt share		Private sector share	
	\$m	\$m	%	\$m	%
1970	730	164	22	566	78
1971	949	184	19	765	81
1972	1991	880	44	1111	56
1973	2161	917	42	1244	58
1974	2305	875	38	1430	62
1975	3334	1707	51	1627	49
1976	3529	1356	38	2173	62
1977	4124	1788	43	2336	57
1978	4762	2255	47	2507	53
1979	4192	1295	31	2897	69
1980p	4804	1041	22	3763	78
1981f	5647	1067	19	4580	81

p—preliminary

f—forecast

Source: Based on UI administrative data

effect on the labour market. It is estimated that without the post-1975 changes, the UI program in 1980 would have cost \$6.6 billion instead of \$4.8 billion. The federal government cost would have been \$3.7 billion (55 per cent of total costs) instead of approximately \$1 billion (22 per cent of total costs).

After 1975, equity questions, particularly as to how UI affected women, increased in significance. Concern about potentially discriminatory aspects of the legislation also emerged, resulting in several steps to resolve issues in these areas. Overall, the various post-1975 changes left the program entering the 1980s less costly than it otherwise would have been but more complex and difficult to administer than ever before.

Evolution of specific design features

Examination of the evolution of specific design features of the program shows clearly that up to and including 1971 there was a movement toward greater expansion. Later amendments represented, generally speaking, an attempt to retrench. Entrance requirements, perhaps the most contentious feature of the program, were quite restrictive from 1940 to 1970. Thirty weeks of insurable employment in the 104-week qualifying period were needed, eight of which had to be in the last year. There was an additional requirement for repeat claimants. In 1971, 20 weeks were needed in the 52-week qualifying

period for the new sickness, maternity and special severance benefits¹ and eight weeks for regular benefits. Beginning in late 1977, a variable entrance requirement of from 10 to 14 weeks, based on the regional unemployment rate, was required for regular benefits. Effective in July 1979, higher entrance requirements of up to 20 weeks for repeaters and 20 weeks for new entrants and re-entrants were added to the variable entrance requirement.

Benefit entitlement was originally quite restrictive. But it was enriched in the 1950s by adding a separate stream of winter seasonal benefits for people who used up or could not qualify for regular benefits. A new basis for benefit entitlement was set up in 1971. Benefits became payable in phases on the basis of labour force attachment and national and regional unemployment rates. Benefit entitlement for people with short labour force attachment in areas of high unemployment was substantially enriched. Benefit structure changes in 1977 to streamline the program by reducing the number of phases set a maximum of 50 weeks' benefit on any one claim, but they did not significantly alter the entitlement of short-term workers.

Benefit rates originally represented about 34 per cent of previous earnings for people without dependents and 40 per cent for people with dependents. They were increased to a pre-1971 level of approximately 40 and 50 per cent respectively. The 1971 Act raised them to 66⅔ and 75 per cent of insurable earnings respectively. Benefits were also made taxable for the first time. The 75 per cent rate for those with dependents was eliminated in 1976 and the 66⅔ per cent rate was lowered to 60 per cent for all claimants in 1979.

Even with these and other changes, the 1979 Canadian UI program remained significantly more extensive than its counterparts in the United States after making allowance for differences in the unemployment rate.²

Perspective

A review of Canada's 40 years of experience with UI shows how much program change has reflected prevailing social and economic conditions. For the most part, the changes in the program's first three decades moved toward broadening coverage and enriching the program.

¹ The special severance benefits are payable to certain claimants when they reach age 65. They will be referred to in the report by their more usual term, "retirement" benefits.

² The main provisions of the present UI program in Canada are summarized in Appendix II.

In this context, the major program extensions of 1971 appear as part of the program's evolution and consistent with the social mood of the period.

Since 1971, program changes to control costs and strengthen work incentives have contributed substantially to these goals. The nature of these changes, however, and the means by which costs have been controlled raise the question of whether cost reductions have been achieved at the expense of other major program dimensions.

The first areas affected by the significant and rapid recent changes are program administration and public understanding of the program. These have been affected through the increased complexity of the provisions themselves and because of the rapidity of legislative change in the 1970s. For example, the program now contains different entrance requirements for several categories of claimant and a complicated benefit structure. The rules governing insurable employment are complex, as is the treatment of employees' earnings on separation. From the point of view of the rapidity of legislative change, between 1975 and 1980, four separate Bills amended the UI Act. This increased the likelihood that as soon as familiarity with one set of changes was achieved, another set would occur.

These rapid changes in the UI provisions and their complexity have made the program more difficult to understand and administer. For employees, simply determining whether they qualify for benefits has become more complicated. For employers, accurately reporting separated workers' insurable employment and earnings has grown increasingly difficult, and has led to errors. For program administrators, the more complicated provisions have meant that decisions on entitlement to benefits take longer and often involve multiple contacts with claimants and employers for the necessary and correct information. For the Commission, caseload backlogs have occurred, and speed of service to the public has suffered. To demonstrate the difficulties, under- and over-payments of benefits have stayed at unacceptably high levels. The Auditor General of Canada, in a 1978 study, estimated that under- and over-payments of \$67 million and \$290 million, respectively, went undetected by UI program controls.

A second problem is the possibility that in achieving cost reductions, the program may have made sacrifices

in the fairness with which it treats individual groups or regions. The equity of having different entrance requirements for different claimant groups or regions has been of particular concern. Questions have also been raised about how cost-reducing changes affect the program's capacity to redistribute income among groups and regions through pooling the costs and risks of unemployment.

Third, in spite of the moves in the 1970s to strengthen work incentives, concern continues over the program's effect on the labour market. It focuses on the program's impact on employment and unemployment patterns and particularly on the intermittency of jobs and the duration and seasonality of unemployment. Related to this are general public concerns about UI. Most Canadians feel the program is basically a sound and appropriate measure³. But they also believe that some of its requirements are too easily met, that benefits sometimes go to the wrong people, and that outright abuse is a problem. So the impact of UI on labour market behaviour continues to be an important issue.

The significant achievements of recent amendments in reducing program costs cannot be ignored in any program changes proposed in this review. With the cost reductions achieved in recent years, it would be inappropriate for the Task Force to propose changes which would significantly add to program costs. In an environment of continuing government spending restraint, changes overall would have to be cost-neutral or even result in some savings, if these could be achieved while improving the program.

In summary, the lessons learned from the evolution of the UI program,⁴ particularly from the changes of the 1970s, are that a review of the program and proposals for change must acknowledge the desired balance between administrative complexity, equity, labour market effects and costs. These are the main criteria against which possible program changes are to be assessed.

³ Goldfarb Consultants, *An Evaluation of Canadians' Attitudes Towards Unemployment Insurance, Canada Employment Centres and Immigration*, Research Report for Employment and Immigration Canada, November 1980.

⁴ See also, G. Dingleline, *A Chronology of Response: The Evolution of Unemployment Insurance from 1940 to 1980*, Ottawa-Hull: Department of Supply and Services, 1981.

Chapter Three

The Labour Market Environment

The evolution of the UI program since it began in 1940 has taken place against the background of substantial change in the labour market environment. Changes in the nature and impact of unemployment in Canada have raised issues affecting the role of UI. Anticipated labour market developments in the coming decade will pose further challenges to UI as a labour market adjustment mechanism. Labour market changes of importance to UI are reviewed chronologically below, along with major developments anticipated for the 1980s.

Changes, 1940-80

Employment and unemployment in the 1940s

In 1940, the typical worker was a male aged 25 to 64 and the sole family breadwinner. Males made up 80 per cent of the labour force (Figure 3-1). Those aged 25 to 64, most of whom were their families' only wage-earners, made up almost 60 per cent. This pattern of labour force participation meant that, for most, unemployment led to the total loss of family income while the breadwinner was jobless.

Unemployment in the 1940s, fortunately, contrasted sharply with that of the preceding decade. Unemployment rates, which in the 1930s averaged over 10 per cent and sometimes approached 20 per cent, had by 1945 given way to a rate of 1.6 per cent. This unemployment largely reflected the experience of people who were simply "between jobs". It also revealed an important seasonal pattern, due in large measure to Canada's still significant rural population and the primary sector activities that went with it. In 1941, about half of Canada's population lived in communities of under 1,000 people. Over 30 per cent of the labour force worked in agriculture, forestry, fishing or mining.

In spite of the low unemployment of the 1940s, significant regional differences were apparent. In 1946, for example, when the national unemployment rate was 3.4 per cent, the rate on the Prairies was only 2.2 per cent. But in the Atlantic (not yet including Newfoundland), it

stood at 5.5 per cent. Then, as now, these differences reflected many factors, not the least of which were differences in industrial structure and in the attendant seasonal employment/unemployment patterns. As late as the 1950s, while seasonal unemployment accounted for about 30 to 40 per cent of the national total, it was estimated to form about half the Atlantic's unemployed and over 60 per cent of the Prairies'.¹

Demographic changes after the 1940s

Since the 1940s, there have been important changes in this picture. These changes have altered the nature, composition and financial impact of unemployment as we now know it. The major change can be described simply and starkly: in the postwar period, particularly in the 1960s and 1970s, Canada has had the most rapid labour force growth of any industrialized country. This growth reached a rate of 4.3 per cent in 1973. Between 1940 and 1980, the labour force in Canada grew from 4.6 million to 11.5 million — an increase of 150 per cent.

Two factors have dominated this growth: the dramatic increase in the size of the female labour force and, especially since the early 1960s, the increased number of young people in the labour force.

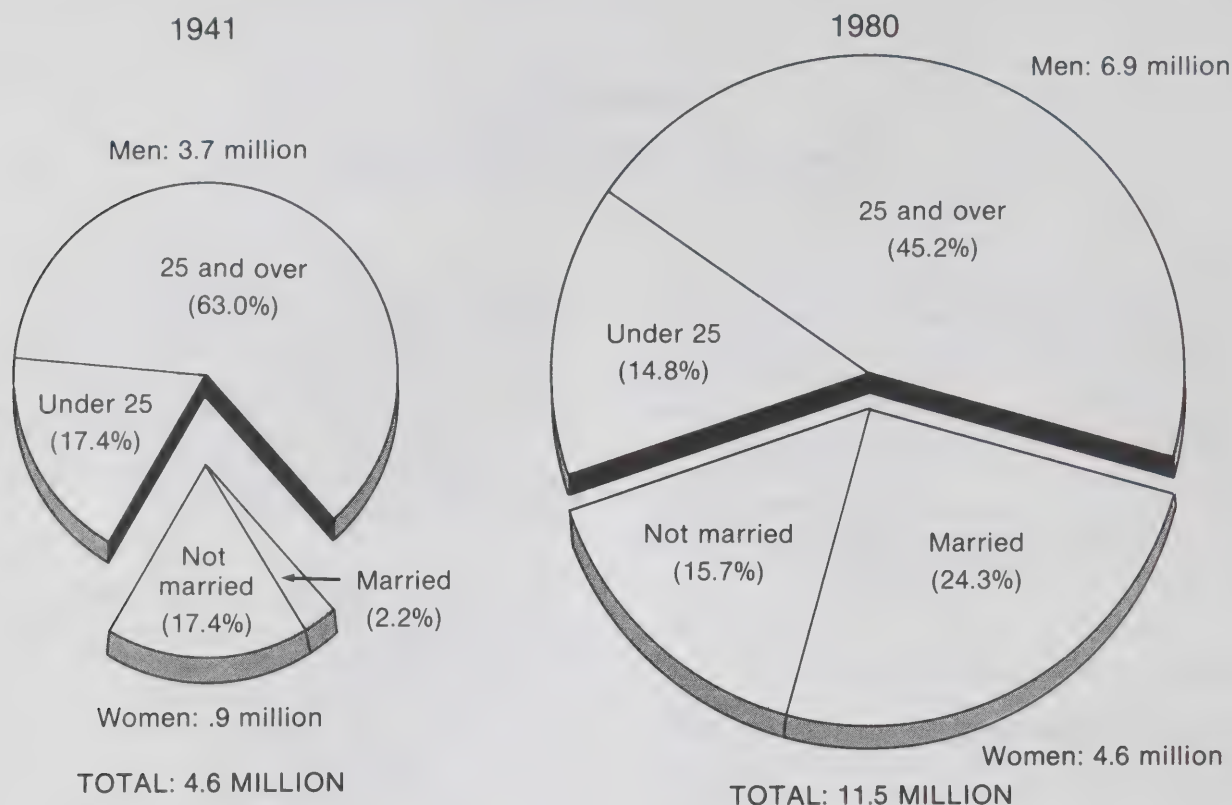
The growth in the female labour force since 1940 has been striking — from 970,000 in 1940 to over 4.6 million in 1980. Although partly due to the growing population in the postwar period, the expansion has been due in greater measure to the increased labour force participation of women, especially married women.

Since 1950, the average annual growth in the female working-age population has been between 2 and 2.5 per cent each year, with a substantial concentration in the

¹ R. Beaudry, "L'importance du chômage saisonnier dans les disparités de chômage au Canada", *Canadian Journal of Economics*, Vol. XI, No. 2.

Figure 3-1

Composition of the labour force, 1941 and 1980



Sources: 1941: Based on *The Census of Canada*
1980: Based on Statistics Canada, *The Labour Force*

1960s as the baby boom generation matured. For women, however, labour force growth has outstripped population growth, and has usually exceeded 4.5 per cent, and sometimes 5.5 per cent, in this period. This discrepancy has been due to women's escalating rates of labour force participation. In 1941, 23 per cent of working age females were in the labour force; by 1980 it was 50 per cent (Figure 3-2).

The increasing labour force participation of married women has been more striking. In 1951, just over 11 per cent of married women were in the labour force. In 1980, fully 49 per cent were working — an increase of 350 per cent.

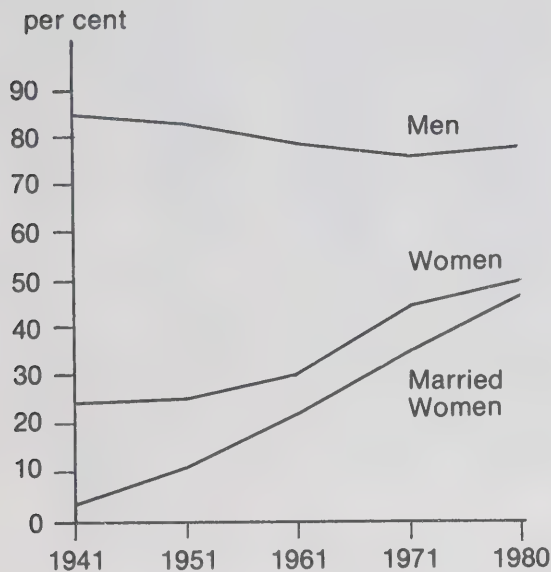
This dramatic rise in the participation of married women has caused a corresponding transformation in their share of the labour force. In 1951, the 350,000 married women in the labour force formed about one-third of the female total. By 1980, 2.8 million married women made up almost two-thirds of the female labour

force. Clearly, married women are now making a more continuing direct contribution to family income than ever before.

This rise in married women's labour force participation has partly reflected declining birth rates. But other factors have also been at work, both for married women and women in general. These factors include changing social attitudes toward women working, as well as women's increasing educational levels and the new career opportunities these have opened up. Rapid expansion in the tertiary (service-producing) sector of the economy has provided opportunities for women's employment. This is particularly true for part-time jobs, favoured by many women because they allow them flexibility to combine a job with other responsibilities.

The second major element in Canada's rapid postwar labour force growth has been the significant increase in young people under 25 in the work force. Between 1953 and 1980, the number of young labour force participants went from 1.3 million to 3.1 million.

Figure 3-2
Participation rates by sex, 1941-1980



Sources: 1941-1971: *The Census of Canada*
1980: Statistics Canada, *The Labour Force*

This growth in the youth labour force occurred for the most part after 1960. It reflected an increase in the young working-age population — a result of the dramatic rise in birth rates during the postwar baby boom. Between 1966 and 1971, as the youth population expanded, the youth labour force grew from 1.8 million to 2.2 million, despite virtually no change in the proportion of young people in the labour force.

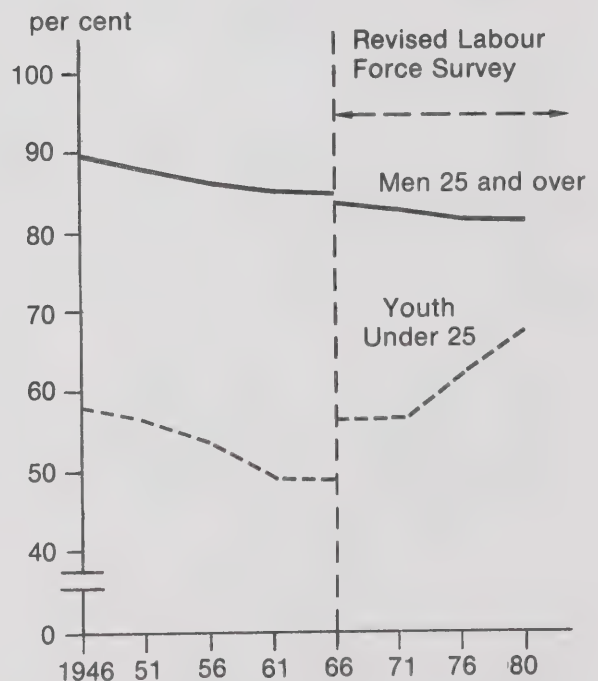
Since 1971, however, the baby boom population has begun to pass out of the youth age group, somewhat slowing the group's population growth. At the same time, a decline in school enrolment and more part-time labour force membership among young people have contributed to a marked rise in youth labour force participation (Figure 3-3). It rose to over 67 per cent in 1980 from under 57 per cent in 1971. This means that the youth labour force grew more quickly than the youth population in this period.

These increases in labour force participation of young people and women, especially married women, have had a major impact on the family. Both groups have contributed to a rapid expansion in the number of multi-earner families since the war. These families no longer depend on the income of one person. Women and young

people have also contributed to the increase in part-time or part-year work which has become increasingly important in the last two decades. In 1977, more than one-quarter of the Canadian labour force were part-year participants, and almost 15 per cent of those employed year-round worked less than 30 hours a week. Nearly 90 per cent of these part-time workers were women or young people. The growing share of the labour force with part-time or part-year work patterns has therefore paralleled the growth of women and young people in the work force.

In employment terms, both youth and women have benefitted from the expansion in the tertiary (service) sector. In their rapid expansion of the last twenty years, trade, finance, educational, health and business services, as well as public administration, have absorbed many new labour force members with all types of educational qualifications. These sectors, particularly trade and services, account for three-quarters of the part-time jobs predominately filled by youth and women. This growth contrasts with that of the primary and manufacturing sectors, where employment growth, if it did not decline, was below the national average. Between 1971 and 1979, for example, while total employment grew by 28 per cent, most service sectors expanded by over 35 per

Figure 3-3
Participation rates by age, 1946-1980



Source: Based on Statistics Canada, Labour Force Survey

cent. In the same period, manufacturing grew by only 17 per cent and agriculture shrank by 6 per cent.

Overall employment growth, however, has not kept pace with the rapid labour force expansion, especially that portion brought about by the influx of young people and women. So while the number of jobs in Canada has grown very rapidly since the early 1960s, the unemployment rate has shown a general upward trend, apart from cyclical fluctuations due to variations in business activity. In the 1950s, unemployment ranged between 2.4 and 7.0 per cent. In the 1970s, the range was from 5.3 to 8.4 per cent.²

For the most rapidly growing groups of workers, however, the deterioration has been even more marked. Although the unemployment rate for males 25 to 54 years old rose from 2.8 to 4.8 per cent between 1953 and 1980, for females it escalated from 1.6 to 8.4 per cent

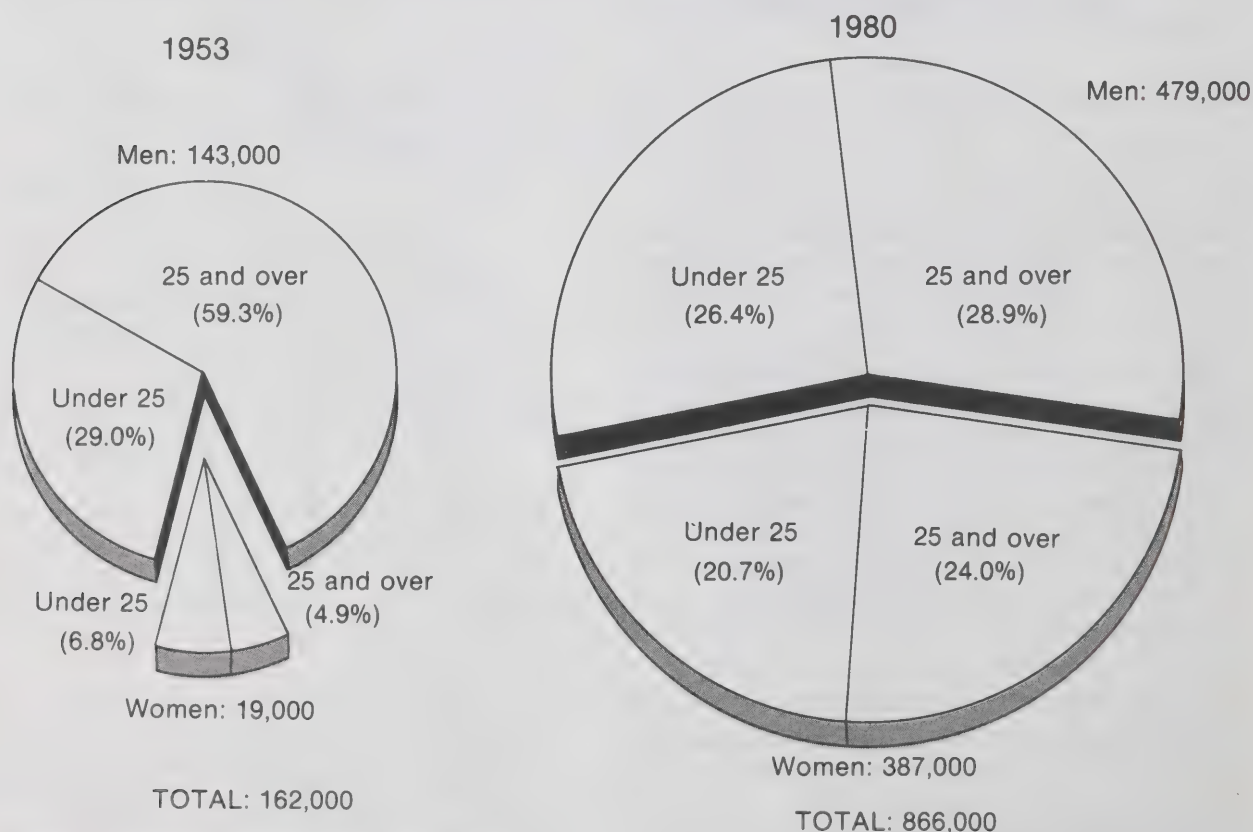
² Source: Statistics Canada, *The Labour Force*, Cat. No. 71-001. Note that estimates for the years after 1965 are based on the Labour Force Survey revision of 1975.

for the same period, and the overall youth rate rose from 4.6 to 13.2 per cent. The composition of the unemployed also changed dramatically in this period. In 1953, males 25 years of age and over formed about 60 per cent of the unemployed. They now account for about 29 per cent. In contrast, females 25 years of age and over (only 5 per cent of the unemployed in 1953) make up a full 24 per cent today (Figure 3-4). Teenagers, especially female, have also had higher levels of unemployment, although these appear to be declining as the growth in the teenage labour force drops off.

These changing levels of unemployment have been strongly reflected in the family status of the unemployed. In 1961, family heads accounted for 46 per cent of the unemployed. Other relatives (primarily spouses) accounted for 11 per cent. By 1979, these proportions had changed to 34 and 18 per cent respectively. In households experiencing some unemployment, the proportion of households with at least one member still working rose from 55 per cent in 1961 to 74 per cent in 1979 (Figure 3-5).

Figure 3-4

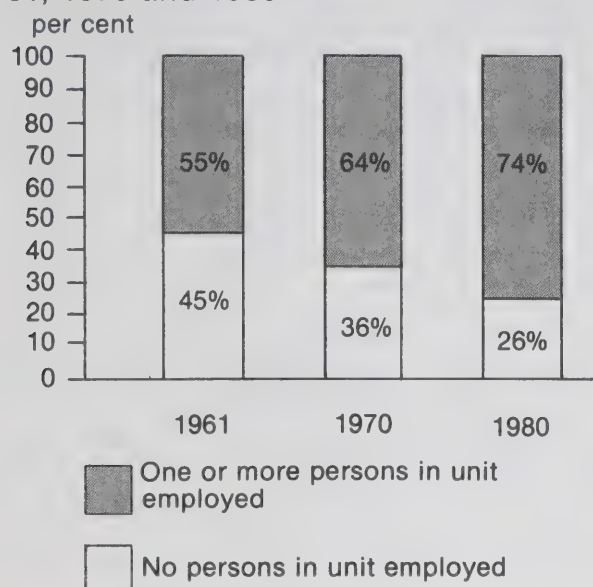
Composition of the unemployed by age and sex, 1953 and 1980



Source: Based on Statistics Canada, Labour Force Survey

Figure 3-5

Distribution of family units with at least one person unemployed, by number of other persons in unit employed, 1961, 1970 and 1980



Source: Based on Statistics Canada, *The Labour Force*

In spite of the increases in overall unemployment, two conclusions emerge from the increased labour force participation of women and young people.

- The typical worker in the 1980s is no longer a male aged 25 to 64 and the sole family breadwinner, and
- unemployment for most families no longer means a total loss of family income.

The larger numbers of women and young people working since the war have had significant implications for families whose members experience unemployment. This has affected the financial hardships associated with unemployment. Unemployment among youth and women has tended to differ in a number of ways from that of adult men, and has therefore affected the nature of unemployment in Canada, as well as its size.

For example, a large proportion of unemployment among women and young people reflects their difficulties in entering or re-entering the labour market. Most of the unemployed in these groups tend to have been out of the labour force before becoming unemployed — in contrast to adult males, most of whom are employed before becoming jobless.

The presence of youth and women as new labour market entrants or re-entrants means that it is an oversimplification to assume that all unemployed people are eligible for UI. Evidence suggests that a sizeable proportion of these entrants or re-entrants tend to have short periods of unemployment before either finding a job or leaving the labour force again. So their presence may shorten the average duration of unemployment of the jobless as a whole — an important fact in assessing the duration of UI benefits.

Even women and young people who had jobs before becoming unemployed differ from adult males because they show a much higher tendency to quit their jobs. These behavioural aspects of youth and women have contributed to a relative increase in unemployment from factors other than cyclical business conditions. Mismatches between the skills or location of the labour market entrants and re-entrants and the jobs, and time spent between jobs seeking a better one, have contributed to the secular rise in unemployment described above.

Regional dimensions

In the postwar period, regional unemployment differences have persisted and at times widened. In the 1970s, for example, the differences increased considerably. In 1971, Newfoundland's unemployment rate was 8.4 per cent and Alberta's 5.7 per cent — a gap of 2.7 percentage points.³ By 1980, however, these provinces' rates were 13.5 and 3.7 per cent respectively — a gap of 9.8 percentage points (Figure 3-6).

These continued interprovincial unemployment differences have been extensively researched.⁴ Analyses using unemployment and job vacancy rates have identified a number of contributing factors. These include the Atlantic provinces' relatively inefficient labour markets and those provinces' continuing demand deficiency. This in itself is related to interprovincial productivity differences not adequately reflected by wage differentials.

³ In this and following discussions, differences between high and low unemployment areas are often illustrated by comparisons between Newfoundland and Alberta or other provinces. Specific references to these provinces are not intended to be the focus of the discussion, but have been used strictly as examples of high and low unemployment provinces.

⁴ This research includes, for example, W. Thirsk, *Regional Dimensions of Inflation and Unemployment*, Ottawa, 1973; The Economic Council of Canada, *Living Together: A Study of Regional Disparities*, Ottawa, 1977; R. Beaudry, *op. cit.*; F. Lazar, "Regional Unemployment Rate Disparities in Canada: Some Possible Explanations", *Canadian Journal of Economics*, Vol. 10, pp. 112-129.

Seasonal employment patterns have also been cited as a significant source of interprovincial unemployment differences, despite declines in the relative size of many seasonal industries and reductions in the impact of their seasonal variation over the postwar period. In particular, recent data suggest that seasonal employment variations may play a large role in the phenomenon of people withdrawing from the labour force in the belief that

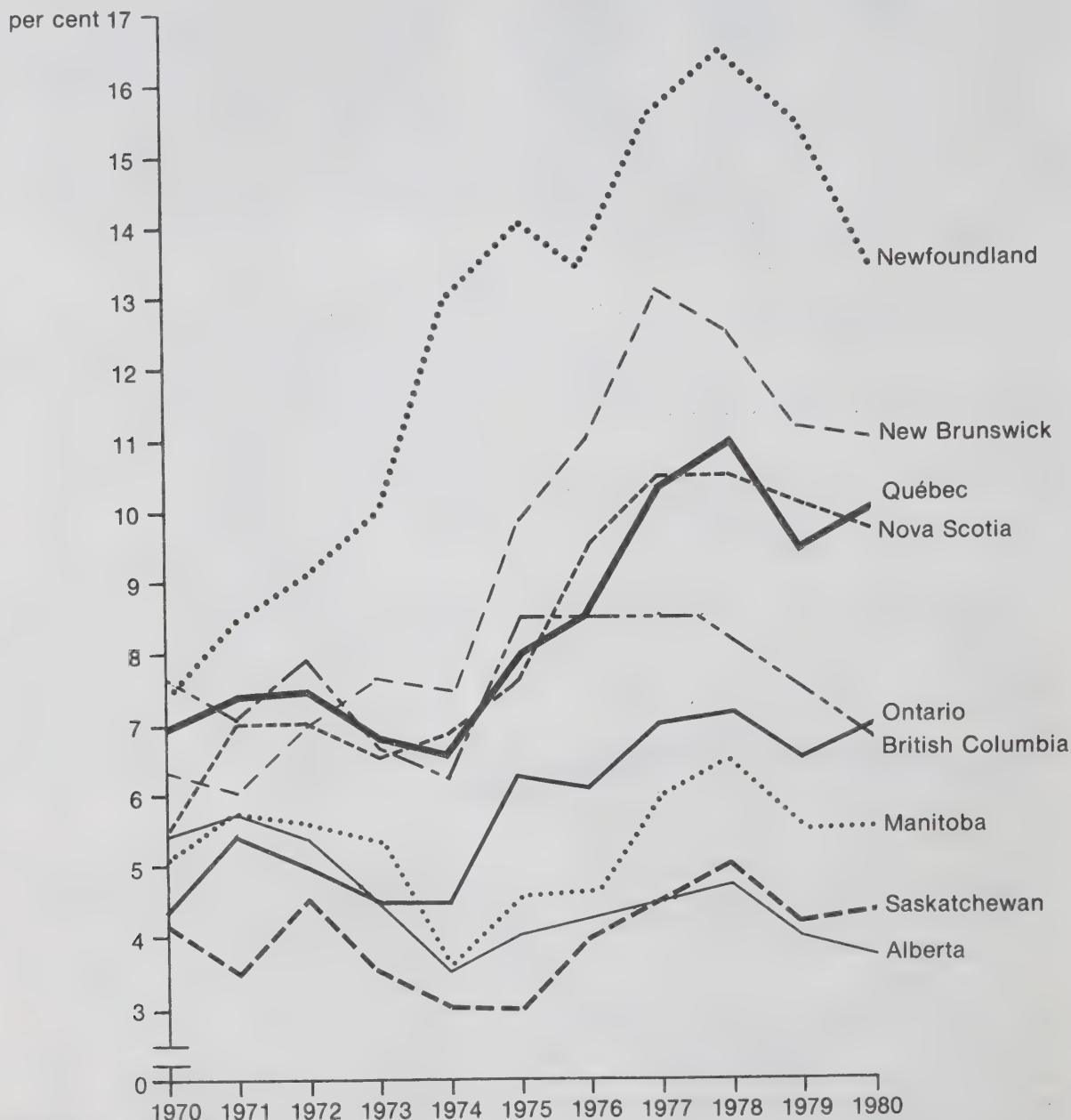
there are no jobs. (This is the “discouraged worker” phenomenon prevalent in the Atlantic provinces.)⁵

In Newfoundland, unemployment remained high in the 1970s despite the fact that between 1971 and 1979

⁵ Statistics Canada, “Persons Not in the Labour Force: Job Search Activities and the Desire for Employment—1979”, *The Labour Force*, Cat. No. 71-001, January 1980.

Figure 3-6

Provincial unemployment rates¹, 1970–1980



¹ PEI data not available for all years.

Source: Based on Statistics Canada, Labour Force Survey

the province had the third highest rate of employment growth in Canada after Alberta and British Columbia. In large measure, this happened because in Newfoundland the creation of jobs tended to attract people into the labour force, preventing the increased employment from bringing about a corresponding reduction in unemployment.

Regional differences in employment and unemployment patterns have important implications for the Unemployment Insurance program. In particular, the impact of these differences on UI will largely depend on how much they come from variations in the number of unemployed people, the number of periods of unemployment these people have or the average duration of their unemployed periods.

In all provinces, there is a nucleus of workers with strong labour force attachment and little unemployment. For this majority, unemployment, should it come, poses few entitlement difficulties. Work attachments are long enough to ensure substantial periods of benefit. For example, for the year 1977, 92 per cent of Canadian workers in the labour force for the entire year experienced no unemployment at all.⁶ This proportion

varied from 84 per cent in Newfoundland to 96 per cent in Saskatchewan. Unemployment, therefore, is not shared equally by all labour force members. Instead, it is concentrated among a minority whose size varies substantially among provinces.

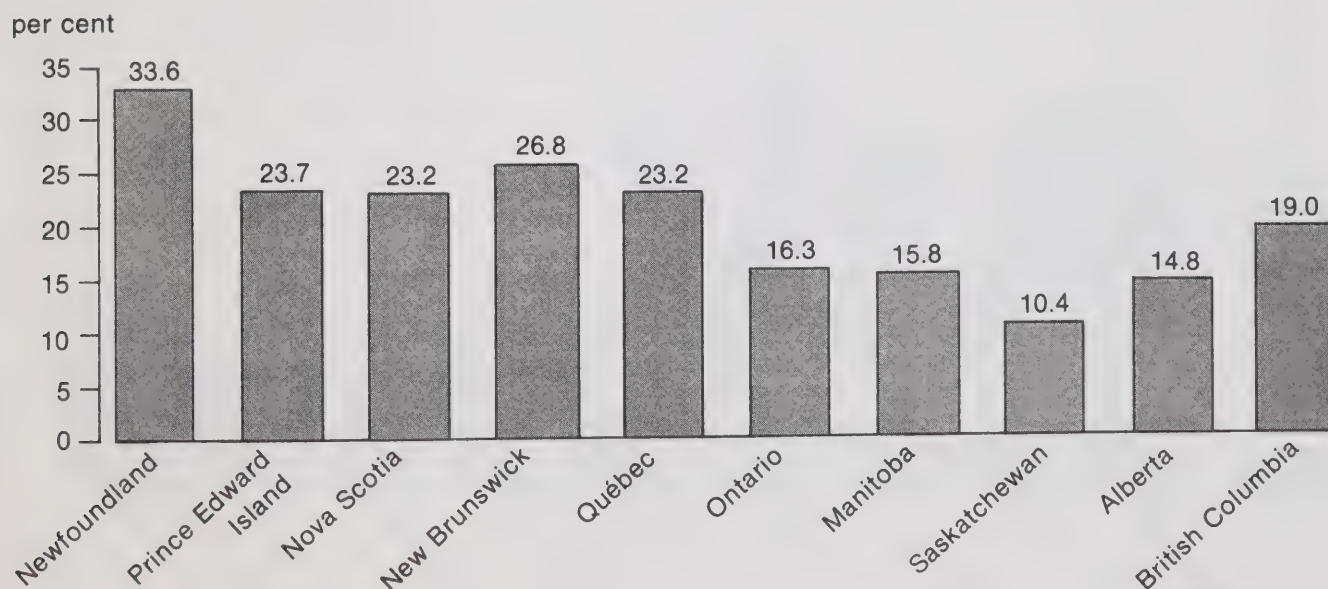
It is the size of this minority which experiences unemployment (the "incidence" of unemployment) which contributes considerably to observed regional unemployment differences. In 1977, for example, 34 per cent of all Newfoundlanders in the labour force at any time during the year experienced some unemployment. In Alberta, the proportion was less than half of Newfoundland's — 15 per cent (Figure 3.7).⁷

This minority among whom unemployment is concentrated includes both full-year and part-year workers. Large provincial differences are apparent in each group. The proportion of full-year workers in Newfoundland who become unemployed is four times that of Saskatchewan (16 versus 4 per cent) (Table 3-1). Differences in

⁶ Statistics Canada, *Annual Work Patterns Survey*, 1977.

⁷ Statistics Canada, *ibid*.

Figure 3-7
"Incidence" of unemployment¹, 1977, by province



¹ Proportion of labour force members who experienced some unemployment during the year.

Source: Based on Statistics Canada, *Annual Work Patterns Survey*

unemployment incidence are also apparent among some provinces' part-year workers. In 1977, 61 per cent of Newfoundland's part-year labour force experienced unemployment, but only 44 per cent in Alberta.

The importance of differences in the incidence of unemployment in explaining interprovincial differences in unemployment is reinforced by data which measure the month-to-month flows of people from each labour force status to the other (the Gross Flows data). Data for 1979 indicate that in Newfoundland average monthly flows into unemployment from either employment or outside the labour force amounted to 5.8 per cent of the labour force (Figure 3-8). In New Brunswick, the figure was 4.6 per cent, but in Manitoba, Saskatchewan and Alberta, the flows were much lower: 2.5, 1.8 and 2.2 per cent respectively. These figures confirm that differences in the number of people who actually experience unemployment at some time during the year — the incidence of unemployment — are a major factor behind interprovincial unemployment variations.

The high incidence of unemployment in provinces like Newfoundland or New Brunswick is largely a reflection

Table 3-1

"Incidence" of unemployment among full-year and part-year labour force members, 1977, by province (per cent)

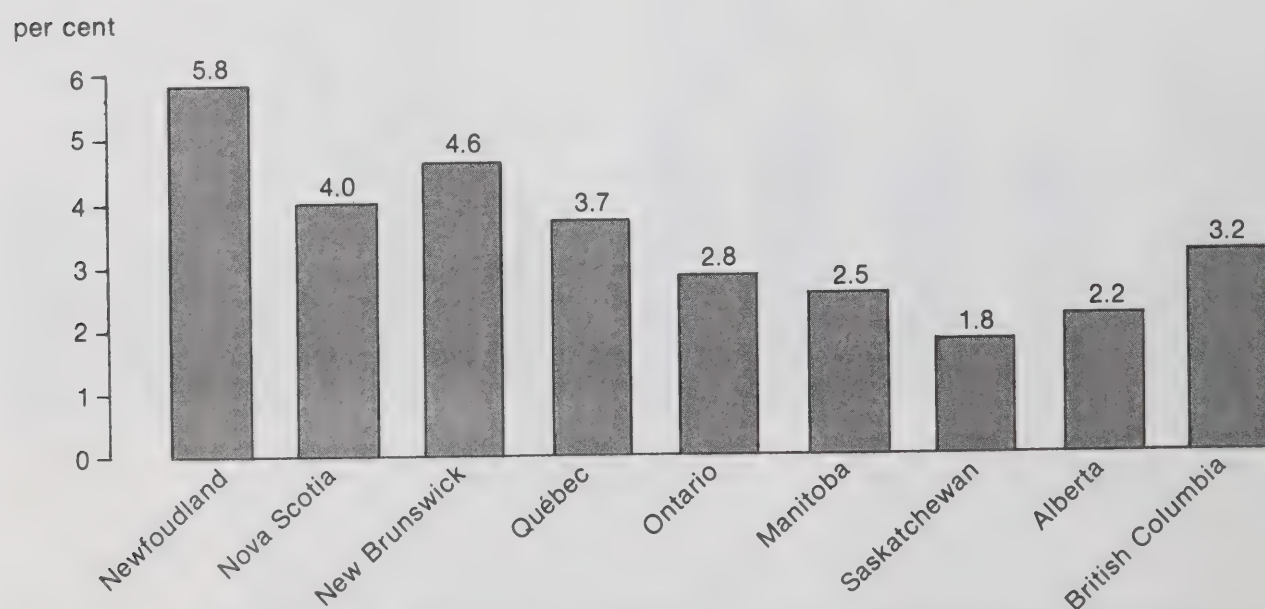
	Proportion of group experiencing unemployment	
	In labour force full year %	In labour force part-year %
Newfoundland	16.7	60.8
Prince Edward Island	11.1	47.8
Nova Scotia	11.0	48.8
New Brunswick	14.0	52.7
Québec	10.3	53.5
Ontario	7.0	43.9
Manitoba	6.6	42.6
Saskatchewan	4.3	39.3
Alberta	4.5	43.9
British Columbia	8.7	44.5

Source: Based on Statistics Canada, Annual Work Patterns Survey

of the intermittency and short-term nature of employment in these provinces. Generally, people experiencing unemployment have simply been less able than others to

Figure 3-8

Average monthly flows into unemployment¹ as a proportion of the labour force, 1979, by province*



¹ From employment and not in the labour force

* Relevant data for Prince Edward Island are not available.

Source: Based on Statistics Canada, Labour Force Survey Gross Flows data

get work of reasonable duration and have instead become unemployed. For example, labour force Gross Flows data show that in 1979, the average duration of a job completed in that year in Newfoundland was 13.5 months. This is much shorter than the 24 to 25 months of the Prairie provinces (Figure 3-9). Other data for 1977 indicate that for individuals experiencing any unemployment during the year, there was roughly a five- or six-week difference between Atlantic and Prairie residents in the amount of work they were able to secure in a year. For example, the proportion of Atlantic provinces' residents who worked 15 to 16 weeks in 1977 equalled the proportion who worked 19 to 20 weeks in the Prairie provinces.⁸

This short job duration and the high incidence of unemployment which follows are linked to the relatively large seasonal part-year labour force participation observed in the eastern provinces. To illustrate, Annual Work Patterns data show that in 1977, 41 per cent of Newfoundland's workers were part-year, in contrast to only 26 per cent of Alberta's (Figure 3-10). These part-year workers, furthermore, showed a strong tenden-

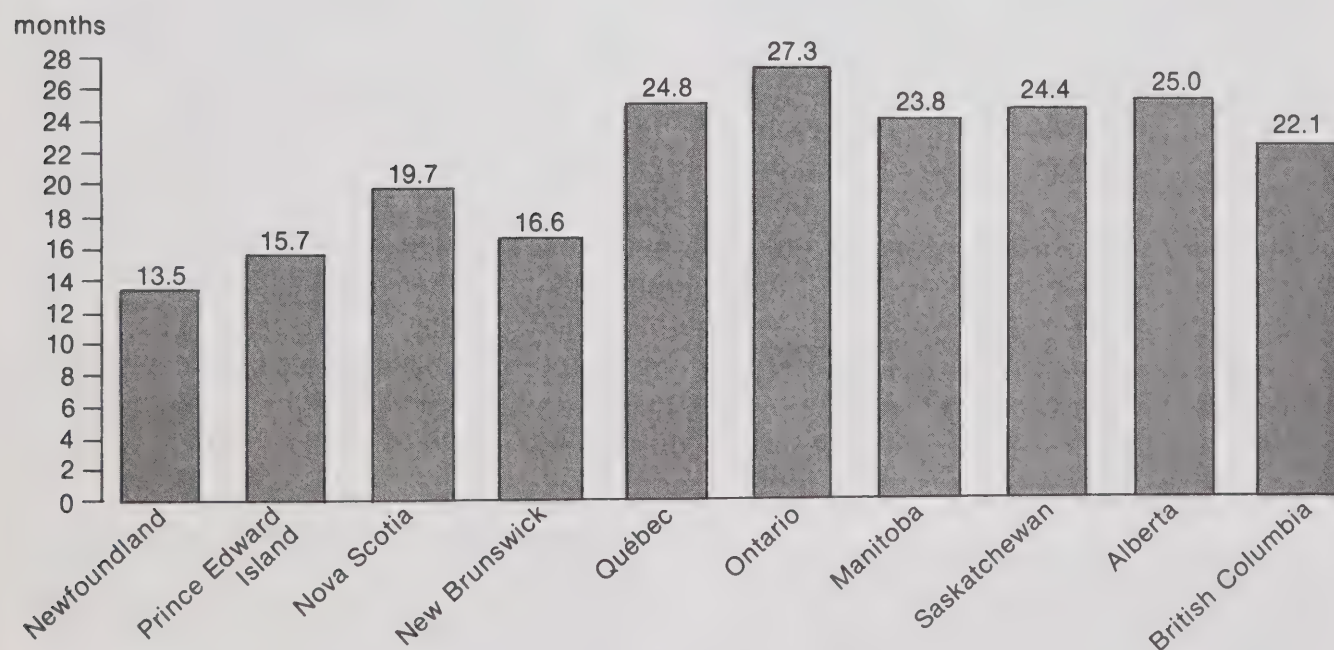
cy to leave work in the winter and, while employed, tended to work for relatively short periods. Of these Newfoundlanders who worked at some time in 1977 but had left the labour force by January 1978, about half had worked four months or less in 1977. Obviously, a person's chances of getting a substantial amount of work in a year are worsened if he or she spends only part of the year in the labour force. Conversely, a person's inability to get more than short-term work may lead to labour force withdrawal rather than prolonged unemployment.

With unemployment concentrated among a minority of workers, data on the number of spells of unemployment in a year show that for many, repeat unemployment is a fact of economic life. In 1977, for example, unemployment was concentrated among 2.2 million people (19 per cent of the year's labour force) who among them experienced about 4 million separate spells of unemployment. Many of them obviously had several jobless spells during the year. Data for the early 1970s, in fact, indicate that almost 30 per cent of the unemployed had more than one period of unemployment in a year. While this proportion was highest in the Atlantic (about 33 per cent) and lowest in the Prairies (about 26

⁸ Statistics Canada, *ibid.*

Figure 3-9

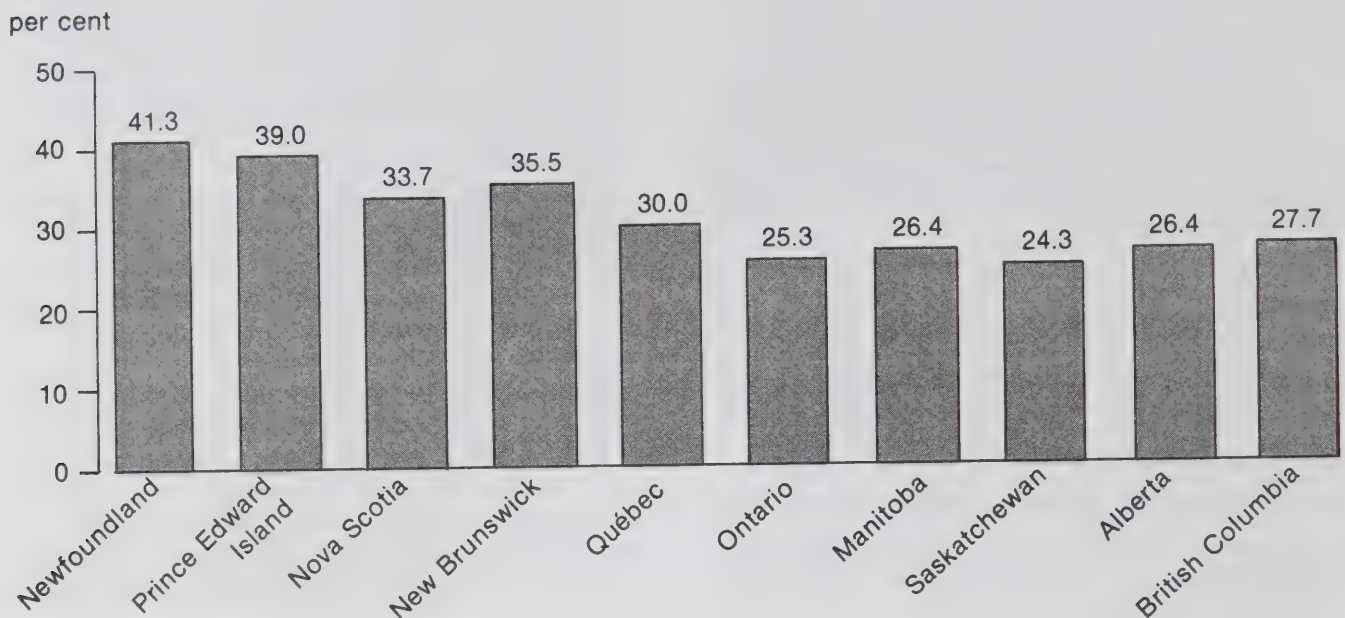
Average duration of spells of employment ending during 1979, by province



Source: Based on Statistics Canada, Labour Force Survey Gross Flows data

Figure 3-10

Proportion of labour force participating part-year, 1977, by province



Source: Based on Statistics Canada, Annual Work Patterns Survey

per cent), the interprovincial variation was not large. Data for 1978 show even greater uniformity in the number of unemployment spells. Spells-per-unemployed averaged 1.4 a year in the Atlantic provinces and British Columbia and 1.3 a year elsewhere. Interprovincial differences are therefore small in the number of spells of unemployment each unemployed person experiences. These differences are a relatively small factor in interprovincial unemployment variations.

The above discussion shows that inter-regional variation in unemployment derives largely from differences in labour force and employment patterns which in turn produce substantial differences in the number of people experiencing unemployment, but somewhat less variation in the number of spells of unemployment experienced by these individuals. On both counts, particularly the former, the high unemployment Atlantic provinces have the highest numbers.

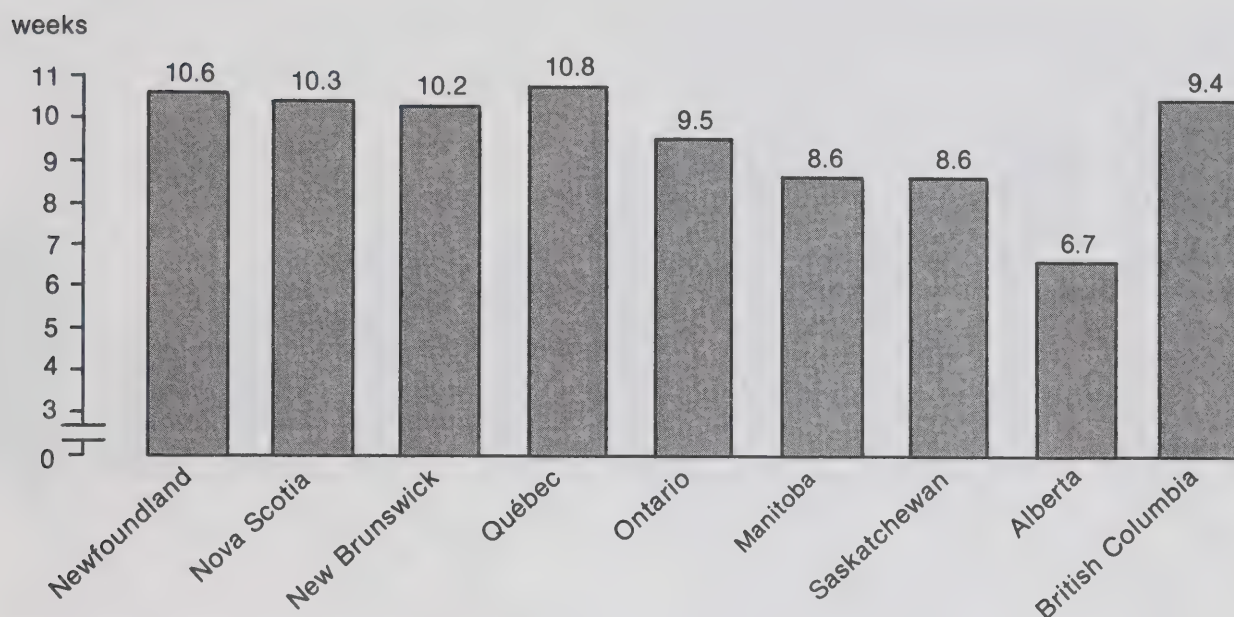
The third way in which provinces' unemployment differs is the average duration of the periods of unemployment. Longer average durations will tend to increase measured unemployment rates. Available data suggest that, in the aggregate, interprovincial differ-

ences in the average duration of measured unemployment spells are not large, in comparison to the differences in average unemployment rates. For example, Figure 3-11 shows that in 1979, the average duration of a completed unemployment spell in Newfoundland was 10.6 weeks. This was only about four weeks longer than Alberta's (6.7 weeks), in spite of Newfoundland's unemployment rate being $3\frac{1}{2}$ times as high. In the aggregate, then, variations in the duration of unemployment spells appear less important than variations in the number of people experiencing unemployment in explaining interprovincial differences in unemployment rates.

From a strictly UI viewpoint, however, interprovincial differences in unemployment duration involve more considerations than simply the above aggregate differences. These aggregate statistics cannot be used on their own as the basis for conclusions regarding appropriate interprovincial differences in benefit duration. There are several reasons for this. First, because UI claimants are permitted to work while on claim, an individual's UI claim may in fact cover several separate spells of unemployment. Second, many individuals, especially in high unemployment provinces, may effectively withdraw from the labour force after a period of unemployment,

Figure 3-11

Average duration of unemployment spells, 1979, by province*



* Relevant data for Prince Edward Island are not available.

Source: Based on Statistics Canada, Labour Force Survey Gross Flows data

believing that no jobs are available. These discouraged workers, prevalent in the Atlantic provinces, may continue to receive UI benefits even after they stop searching. This would tend to make observed UI benefit durations appear longer than measured unemployment spells, especially in the Atlantic provinces. In addition, the unemployed include many new labour force entrants or re-entrants with no recent work history who would not qualify for benefits. Since these people tend to have relatively short duration unemployment spells, unemployment figures which include them will tend to show shorter durations than UI benefits, which do not. Finally, UI benefit entitlements vary considerably among provinces. These differences themselves contribute both to the long UI claims in high unemployment provinces and to the observed interprovincial differences in claim duration.

Thus, UI benefit duration data show much longer durations, and more interprovincial variation, than aggregate unemployment figures. In 1979, for example, average UI claim durations varied from 12.1 weeks in Alberta to 28.3 weeks in Newfoundland, although these provinces' completed unemployment spells, described earlier, lasted 10.6 and 6.7 weeks respectively (Figure

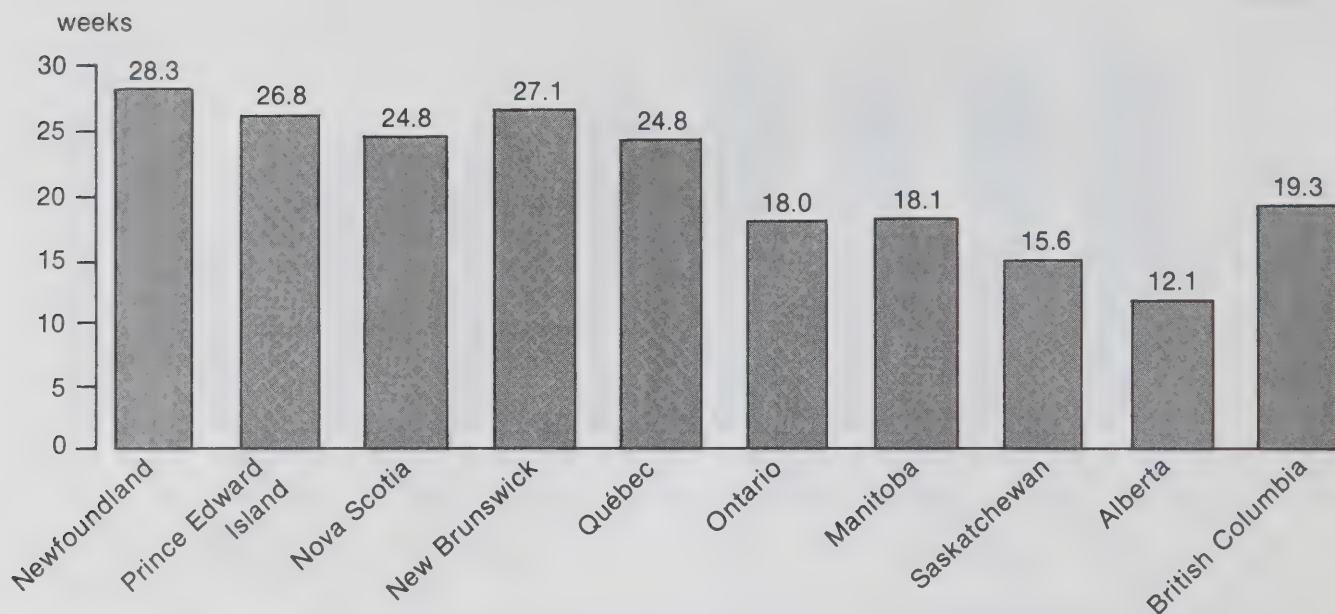
3-12). As a result, neither data set constitutes an appropriate yardstick against which to assess the other.

In summary, interprovincial differences in unemployment rates tend to arise more from differences in the number of people experiencing periods of unemployment than in the frequency or duration of the unemployment periods themselves, which are more uniform provincially. Differences in the number of people experiencing unemployment, in turn, are in large measure a reflection of the intermittency and short duration of their employment patterns — many of them seasonal. Provincial differences in employment duration are therefore a very important direct influence on UI's employment/unemployment environment. However, the implications for UI of provincial differences in unemployment duration must be discussed with care. Short, fairly uniform provincial unemployment durations are consistent with longer, more provincially-variable UI claim durations.

These continuing regional disparities and the major changes in the financial impact of unemployment brought about by the growth in the number of youth and women in the labour force have constituted the major labour market developments in the period since the war.

Figure 3-12

Average duration on claim, 1979, by province



Source: Based on UI administrative data

The 1980s

Labour force

The growth of the Canadian labour force is expected to slow substantially in the 1980s. Average annual labour force growth rates in 1970-75 and 1975-80 were 3.5 and 2.9 per cent respectively. But anticipated rates for 1980-85 and 1985-90 are 2.0 and 1.8 per cent. This slower labour force growth will stem largely from the expected slowdown and, after 1985, absolute decline in the youth working-age population. The baby boom generation, as it ages during the decade, will enter the adult age group (25 years and over) without being fully replaced because of the sharp decline in birth rates in the 1960s. The youth group's labour force share is therefore expected to fall from 27 to about 20 per cent of the total by 1990 (Figure 3-13).

In the same period, labour force participation by women is expected to continue to increase, but at a slightly slower pace than in the 1970s. By 1990, nevertheless, it is anticipated that over 75 per cent of women aged 25 to 54 will be working, compared to 50 per cent in 1980, and that adult women will make up one-third of the total labour force.

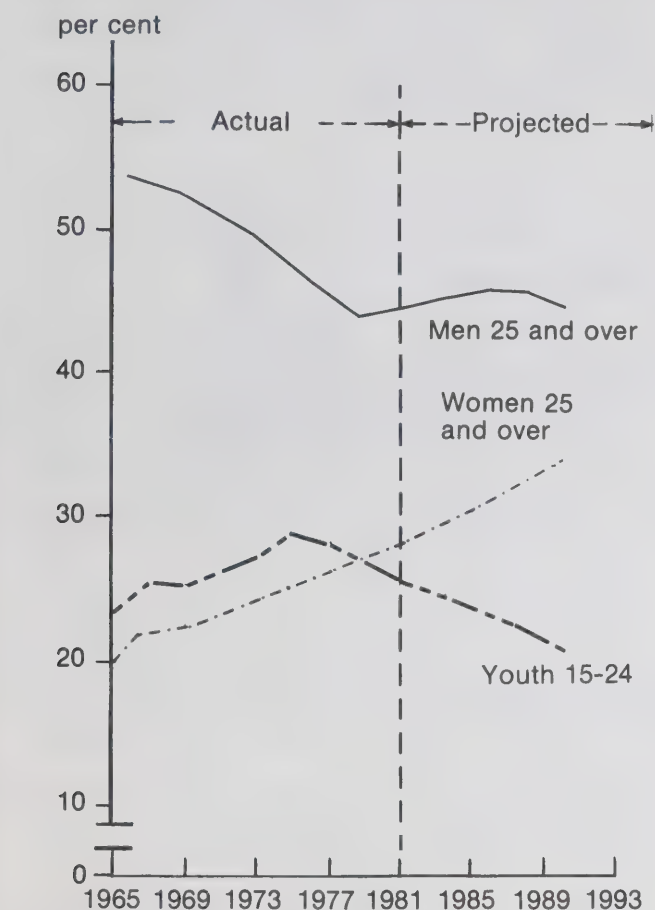
The Canadian labour force of the 1980s, reflecting the effects of these changes, will differ fundamentally from the 1970s' labour force. The smaller influx of youth will mean that overall labour force growth will be slower than in the past. Furthermore, the labour force will become increasingly older. At the same time, continued growth in female participation will increase women's labour force share, although more slowly than in the 1970s.

Employment

Employment growth in the 1980s will depend upon several factors — changes difficult to predict with accuracy. Energy prices, Canada's international competitiveness and growth in the U.S. economy will all have an impact on employment growth in this decade. While it is not possible to accurately forecast specific employment growth, several general developments can be foreseen.

First, it is expected that over much of the 1980s, especially after 1982, available jobs in Canada will tend to grow more rapidly than the labour force, which should result in a reduction in the national unemployment rate over the decade. A major source of this

Figure 3-13
Labour force composition by
demographic groups, 1965-1990



Source: 1965-1980: Statistics Canada, *The Labour Force*
1981-1990: Projections developed by the Labour
Market Development Task Force.

growth will be a stronger goods-producing sector, expanding at or above the national rate for the period. The contribution of the service sector to overall employment growth, however, will be smaller than in the recent past.

Regional differences in employment growth are also expected to persist. This will contribute to continuing regional unemployment rate differentials over the decade. In particular, employment expansion is expected to continue to be strongest in the western provinces, reflecting anticipated strength in the energy-producing sector, with its manufacturing, construction and service sector spin-offs. This is expected to be particularly true in Alberta, where employment may expand by over four

per cent a year, compared to less than two per cent a year in the Atlantic provinces and about two per cent annually across the country (Figure 3-14).

The adjustment process

The slow labour force growth anticipated for the 1980s, and the relatively rapid growth in job opportunities (particularly in the western provinces), will make necessary the geographical and occupational relocation of workers. This relocation will have several features. First, migration to the west from the slower-growth areas of central Canada and the east will continue. Second, pressures for the retraining and upgrading of workers will coexist with the need for appropriate skill training of new workers. There will also be more need for women to enter traditionally male-dominated occupations. Otherwise, major supply difficulties will arise from the anticipated growth in these jobs. The human resource needs of the period will also mean that the labour force potential of specific groups, such as native people, older workers and the disabled, will have to be used more effectively.

At the same time, the dynamics of adjusting to energy prices or changing terms of trade will continue to produce downward cyclical or structural adjustments. These will take the form of temporary layoffs or permanent plant shutdowns in spite of the relatively strong overall employment growth anticipated for the period.

To contribute to worker relocation, strong emphasis must be placed on the adjustment objectives of retraining, mobility and other structural measures. At the same time the importance, in labour market adjustment terms, of the income protection of Unemployment Insurance will need to be restated. The task of simultaneously helping both upside and downside adjustments (i.e. the expansion opportunities and the employment dislocations respectively) will also put the onus on co-ordination of the labour market measures directed at each.

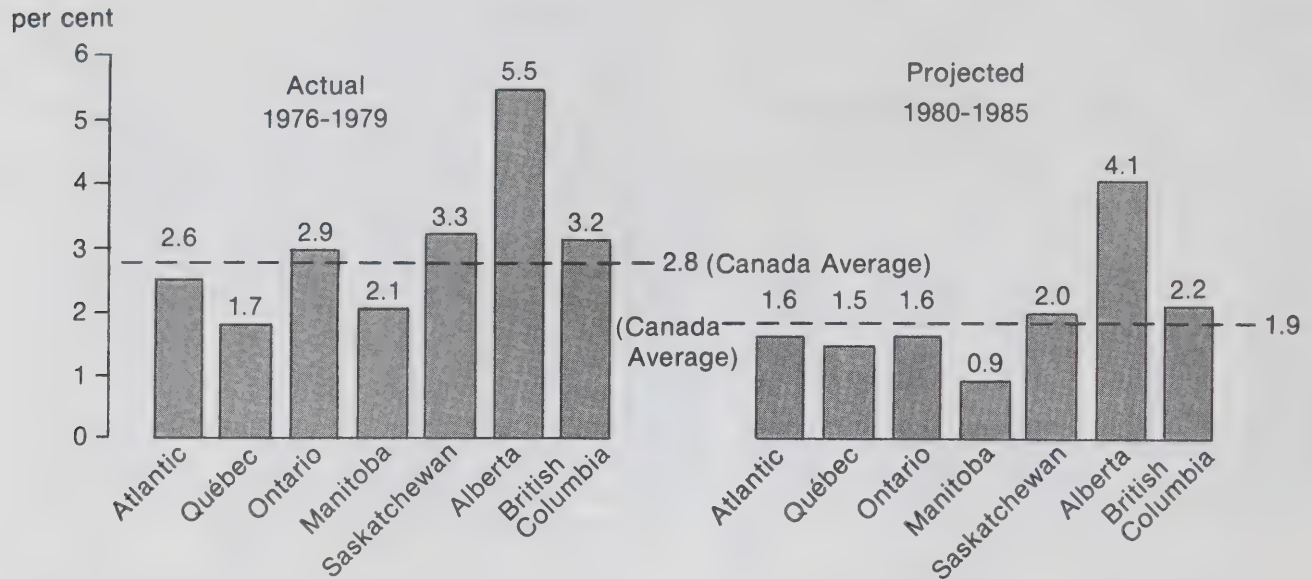
Implications for the UI program

The anticipated labour market changes can be expected to have far reaching effects on the UI program in the coming decade. The program's design features must acknowledge emerging labour market realities.

The first labour market requirement for moving workers away from less dynamic sectors toward those where there are job opportunities is a national labour market strategy with program components capable of acting together to achieve this objective. Such a strategy will clearly include structural labour market develop-

Figure 3-14

Actual and projected average annual employment growth rates, by region



Source: 1976-1979: Based on Statistics Canada Labour Force Survey
1980-1985: Projections developed by the Labour Market Development Task Force.

ment policies, but it will also present Unemployment Insurance with two clear challenges. UI will be needed as income protection to cushion the effects of employment dislocations (the downside) and contribute to continued economic and social stability where these dislocations would otherwise be devastating to the people and communities involved. Second, UI will have to strengthen its capacity, as part of a national labour market strategy, to help realign Canada's human resources to take advantage of expected job opportunities (the upside).

The national scope of these anticipated labour market changes will make it essential that UI continue as a national program capable of contributing to national objectives. UI's role in income protection, for example, will be maintained by its continued operation as a national social insurance program, pooling the costs and risks of unemployment. This pooling shares the costs of unemployment among the minority who suffer employment dislocations and the majority who enjoy the benefits of an efficient deployment of human resources. UI's capacity to ease labour market adjustments will also be strengthened by its national scope. This ensures that benefits are portable across the country and not subject to artificial geographical barriers. It also ensures that

program provisions can be designed to operate within an overall labour market strategy, supporting the achievement of national labour market objectives.

These considerations underline the continued need for a national UI program in the 1980s. But they do not necessarily imply a program which ignores regional differences in labour market opportunities or employment patterns. Analysis shows that regional differences are likely to persist in the coming decade, with the west continuing to have relatively strong activity and the east relatively high unemployment. The implications of this for UI, and for the regional differences in its design, will be a question of major significance.

Also important for UI program design will be the expected growth in women's labour force participation (especially in traditionally male jobs) and the decline in the youth labour force. In the 1980s, women will constitute the major source of Canadian labour force growth. They can be expected in increasing numbers to choose careers in non-traditional and higher paying occupations. The value of women's direct economic contribution to households will continue to rise. With this will come greater demands that women's special employment needs be met. For Unemployment Insurance, these

developments will be significant for assessing the basis on which benefits are paid to members of multi-earner families, for maternity benefits, for the program's treatment of new labour force entrants and re-entrants, and for issues surrounding the determination of insurable employment and earnings. In assessing such issues, the stronger economic role of women will require program changes that help rather than hinder women's labour market participation.

UI's broader impact on the multi-earner family will continue as a major challenge to the program. It is important to ensure that, for unemployed members of multi-earner families, benefits do not combine with the earnings of other family members to reduce the incentive to find a new job. At the same time, the income protection objective of the program must not be compromised. However, this balance must be struck in an expected environment of generally improved employment prospects.

The process envisaged for the 1980s of relocating workers may pose increasingly difficult decisions for the multi-earner family. More situations are likely to occur in which one family member gets a job requiring that other family earners give up their jobs. The impact of this on family income and the careers of other family members may be particularly severe in the short term. In some cases it could prevent the move. It will be

important to ensure that UI does not impede mobility decisions in these situations.

UI's contribution to labour market adjustment will involve not only mobility questions. It will also raise the issue of how UI can contribute directly to other structural labour market measures such as training. This raises the general issue of how the link between UI and other labour market programs can be strengthened. These questions may be of particular importance for women seeking to move into non-traditional occupations.

As the average age of the labour force increases in the next ten years, issues associated with the employment of older workers may take on increasing importance. Among these will be human rights issues relating to non-discrimination because of age and non-compulsory retirement.

In summary, anticipated labour market changes will have significant implications for Unemployment Insurance. This is true in terms of the overall balance between its objectives and in terms of the specific factors which must be taken into account to make its design appropriate in the 1980s. These implications are important for the program design discussions presented later in this report.

Chapter Four

The Income Protection Role of UI

Unemployment Insurance is a central pillar of Canada's social security system, protecting workers against a loss of earnings caused by unemployment, sickness, or maternity, while avoiding the stigma of welfare. This lets UI pay benefits automatically, free of the sometimes demeaning administrative processes of determining need. As an income protection measure, UI is a first line of defence against loss of income from employment. It avoids or postpones the need to resort to other measures such as social assistance by giving people the opportunity to find re-employment. Not only does UI form an integral part of Canada's social security system, its operation as a social insurance program, together with its explicit labour market orientation, give it a unique¹ place in that system.

Because it operates as a social insurance program, UI differs fundamentally from other social security measures. It also departs in basic ways from private insurance schemes. These differences set UI apart from other measures with which it is often compared, and they are essential to understanding its place in the social security system.

As a social insurance program, UI differs from social assistance measures primarily on the following grounds.

- Under UI, benefits are paid as a matter of right to eligible claimants, and are not affected by the claimant's financial position. Benefits do not depend on the means test usually administered in other social assistance programs so that the claimant's dignity and privacy are preserved.
- While social assistance is usually available to anyone who can demonstrate need, UI, as a social insurance measure, requires a qualifying period before a person becomes eligible for benefits.
- Social assistance payments are not limited by a pre-established maximum duration, but are gener-

ally payable as long as the need exists. UI benefits, in contrast, are payable for a prescribed period and depend on the claimant's continued willingness to seek re-employment.

- Because UI claimants receive benefits as a matter of right, determination of their entitlement is much more uniform than the treatment of social assistance recipients, whose continued support rests on the continuing assessment of need.
- UI contains built-in measures to control against program abuse; evidence is needed that the unemployment has occurred, and that the claimant is willing to take re-employment. The two-week waiting period also ensures that the claimant bears some of the costs of the unemployment. Social assistance payments, however, are made from the first day of proven need.
- Social assistance programs are financed solely out of general taxation and must therefore compete with other programs for budgetary priority. In UI, the risks and costs of unemployment are pooled among employers and employees, who contribute through premiums, and the federal government, which finances part of the program out of general revenues.

These social insurance features of UI permit it to play a major role in protecting the economic security of workers in Canada. They ensure that eligible unemployed workers receive income protection automatically, and as a matter of right, free of the discretionary features of social assistance programs.

UI also differs from other social assistance measures because it incorporates insurance features, including such key insurance concepts as:

- the insurable risk of involuntary unemployment,
- the insurable interest of a substantial work attachment, income from which would be lost through unemployment,

¹ It should also be noted that among federal social security measures, the Canada Pension Plan also operates as a social insurance program, although without an explicit labour market objective, which UI has.

- the spreading of risk over a large number of users, through payment of premiums,
- co-insurance features which operate when the risk is not entirely outside the person's control and require that the insured bears some of the cost of the unemployment, through the two-week waiting period or the incomplete replacement of income.

The form these conceptual features take in UI is more akin to private group insurance practices than to individual or private insurance. However, UI differs conceptually even from group insurance in a number of ways, and these important distinctions place UI in a separate category—social insurance.

In the first place, UI coverage is virtually universal while the groups covered under group insurance schemes are much smaller, perhaps employees of a single firm. By charging uniform premium rates within the insured group, both UI and group insurance operate to redistribute income, via benefits, from the low- to the high-risk group members. Because of its near-universal coverage, however, UI will bring about a much greater income redistribution than will group insurance. While group insurance will redistribute within groups, UI will redistribute within and among them. The extent of UI's redistributive capacity is one feature that sets it apart as a social insurance program.

Second, while both group insurance and UI benefits provide a specific level of coverage, UI gives greater emphasis to those whose presumed relative needs are greater. In group insurance, the emphasis of benefits is more on individual equity. For example, in UI the maximum weekly insurable earnings limit the rate of benefit a claimant may receive. This in turn limits the extent to which the program replaces the earnings of those with higher incomes, on the basis that they are more able to bear some of the costs of their own unemployment. In group insurance, similar considerations regarding the allocation of benefits do not occur, so that similar strict limitations on benefits are less likely.

Third, unlike group insurance, UI includes government financing. Since unemployment is part of the social and economic system and society as a whole may be said to benefit from the payment of UI benefits, government has always contributed from general revenues to the UI program. This tripartite financing of UI among employers, employees and government is a unique feature of its operation as a social insurance program and distinguishes it from group insurance schemes.

These differences permit UI to cover a risk that derives from the nature of the economy as a whole,

which is therefore more appropriately covered through a government measure. Taken together with UI's differences from social assistance programs, these distinctions place UI in a separate class of social insurance, well suited to playing a major role in protecting the incomes of workers in Canada.

As an income protection measure, UI's contribution to the economic security of workers in Canada is significant. In 1980, the program paid out approximately \$4.4 billion in benefits. These payments represent approximately two per cent of total personal income in Canada, and a much larger share in some regions.

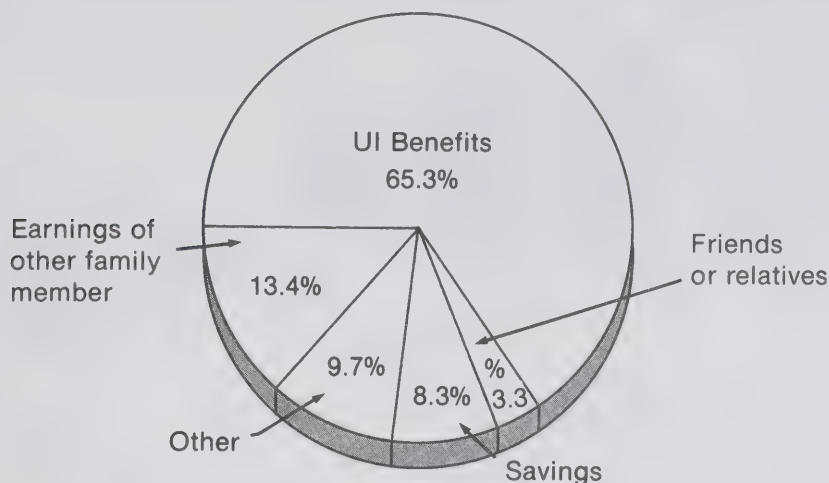
In meeting people's income protection needs, Unemployment Insurance plays the central role in providing income during unemployment. A 1976 survey of UI claimants² found that for almost two-thirds of respondents, UI was their main source of income while unemployed (Figure 4-1). One in eight relied primarily on the earnings of another family member and one in ten depended mainly on savings or on borrowing from family or friends. Sixty per cent of respondents did not report cutting down on household expenses. About 90 per cent had no difficulty paying bills on time. Fewer than five per cent had to borrow from the bank, and fewer still sold possessions to finance their unemployment. This illustrates UI's major role in reducing the hardship of unemployment and minimizing reliance on extraordinary means, like borrowing from banks or selling possessions, to finance unemployment.

The significance of UI in the Canadian social security system can also be seen from an international comparison of financial allocations. Precise comparisons are hard to make, but available data show that UI expenditures in Canada tend to be high compared to other industrialized western countries. Data from the mid-1970s indicate that while UI expenditures were about two per cent of Gross National Product (GNP) in Canada, similar payments were close to or under one per cent of GNP in countries such as the United States, the United Kingdom, Germany and France. But this comparison should be seen in perspective. In total social benefit program payments — including, for example, sickness and health insurance, disability, old age security, family benefits and unemployment insurance — Canada stood below most other industrialized countries in the mid-1970s. Payments under such programs in this period stood at about 15 per cent of GNP in Canada and the US, compared to over 20 per cent in the UK, Germany and France. This underlines UI's relatively

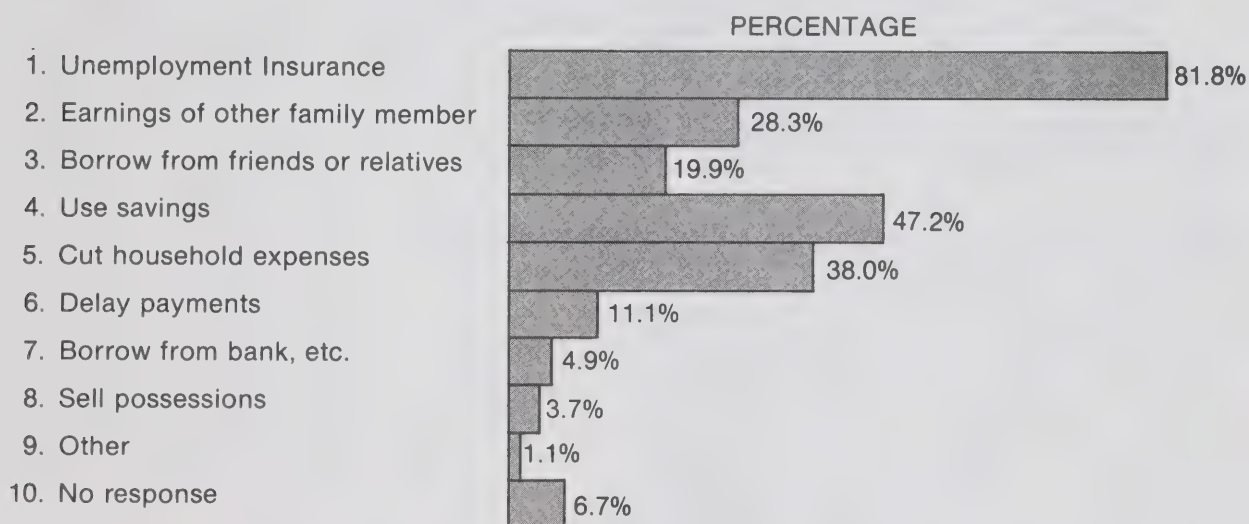
² Canada Employment and Immigration Commission, *National Survey of Unemployment Insurance Claimants Six Months After Their Claims Ended*, Ottawa: July 1978.

Figure 4-1

Main source of income during unemployment, 1976



All sources of income during unemployment, 1976



Source: *Survey of UI Claimants*, Canada Employment and Immigration Commission, Ottawa, 1976.

large contribution to social benefit payments in Canada and the corresponding importance of its role as an income protection measure.

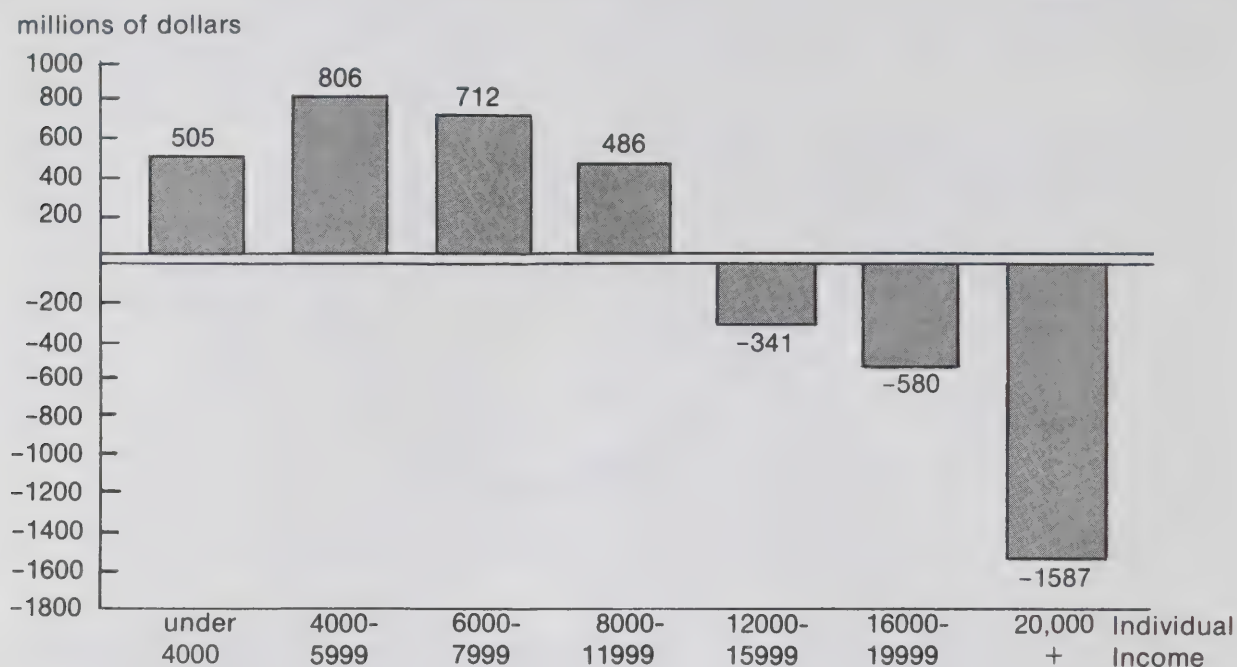
The importance of UI in the social security framework is also evident from its continued operation as a program distinct from other income security measures. Generally, design changes have not been reactions to major changes in other components of the income security system, although there have been some cases of this. For example, elimination of the special dependency benefit rate of 75 per cent in 1976 was in part related to the enrichment of family allowances. UI coverage of

people over age 65 was removed in 1975 after removal of the earnings test for Canada Pension Plan (CPP) eligibility between age 65 and 70. It is also significant that in the 1973-76 Social Security Review, the proposals for income support and supplementation did not foresee major changes in Unemployment Insurance.

Another unique aspect of Unemployment Insurance is its constitutional underpinnings, compared to those of other social security measures. Unlike other components of the system, like social assistance, which fall primarily under provincial jurisdiction, Unemployment Insurance rests exclusively under federal authority. This reflects

Figure 4-2

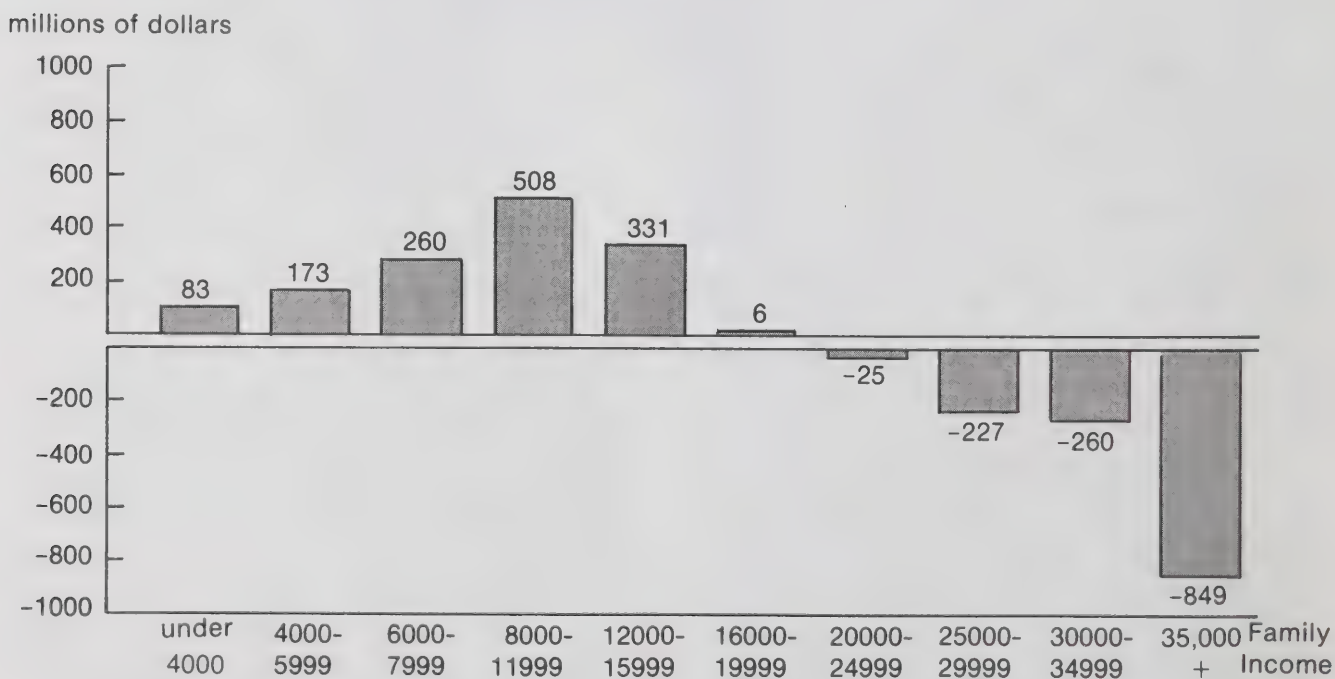
Income redistribution, by individual income class, 1978



Source: Based on Statistics Canada, *Survey of Consumer Finances*

Figure 4-3

Income redistribution, by family income class, 1978



Source: Based on Statistics Canada, *Survey of Consumer Finances*

the federal responsibility for the overall management of the economy and for the fiscal and monetary measures most capable of addressing unemployment. The pooling of the costs and risks of unemployment is strengthened if it occurs nationally, particularly with the great inequities in the regional burden of unemployment. The federal mandate therefore supports the program's social insurance aspects.

UI and income redistribution

In achieving its income protection objective, Unemployment Insurance also contributes to the important social goal of income redistribution. Although this is not an explicit UI objective, income redistribution is considered a positive effect of the program brought about by the way it pools the costs of unemployment.

Unemployment Insurance is financed by employers, employees and the federal government — a tripartite system. Employers and employees pay UI premiums at predetermined rates and the federal government contributes out of general revenue. Premiums and taxes are gathered almost universally, while benefits are concentrated among people in certain income groups and regions. The program's effect is to redistribute income from those who have little or no unemployment to those whose unemployment experience is more extensive. In 1980, for example, over 11 million workers in Canada contributed premiums and benefits were paid to about two million people. Although there were a large number of claimants, they represent only a fraction of those who financially supported the program.

The degree of income redistribution depends primarily on how the distribution of benefits differs from the distribution of premiums and on the use of taxes to finance the government's share. Also at work, but quantitatively less important, are the effects of the tax on benefits and the tax deductibility of premiums.

Most UI benefits are paid to lower income people. This occurs mainly because people in lower paying jobs tend to become unemployed (and collect benefits) more often and for longer periods than those in higher paying jobs. In addition, when people in higher paying jobs experience unemployment, their income is reduced, moving them into lower income groups. This occurs because UI does not fully compensate for lost wages.

On the financing side, the amount of premiums and taxes differs among income groups. On the one hand, premiums tend to consume a higher proportion of the income of low income people than of those with higher incomes. The impact of premiums is therefore somewhat regressive. This occurs because premiums are paid only on insurable earnings which may be less than gross earnings because of the existence of an insurable earn-

ings maximum. The maximum on insurable earnings means that those with earnings above it do not pay premiums on the earnings exceeding that level. Therefore, high wage earners pay a lower proportion of their earnings in premiums than do low wage earners.

On the other hand, financing part of program costs through personal income tax is progressive because higher income groups pay much more personal income tax — and therefore program costs — than do lower income groups. In general, the progressive nature of the financing of UI will depend on the extent of the tax financing on which the program is based. A larger share financed out of general revenues will increase the burden of UI program costs on those with higher incomes.

In spite of this mixed incidence in the financing of the program, the concentration of benefits among high unemployment, lower income groups and regions means that substantial income redistribution occurs.

Income redistribution of UI by individual income class

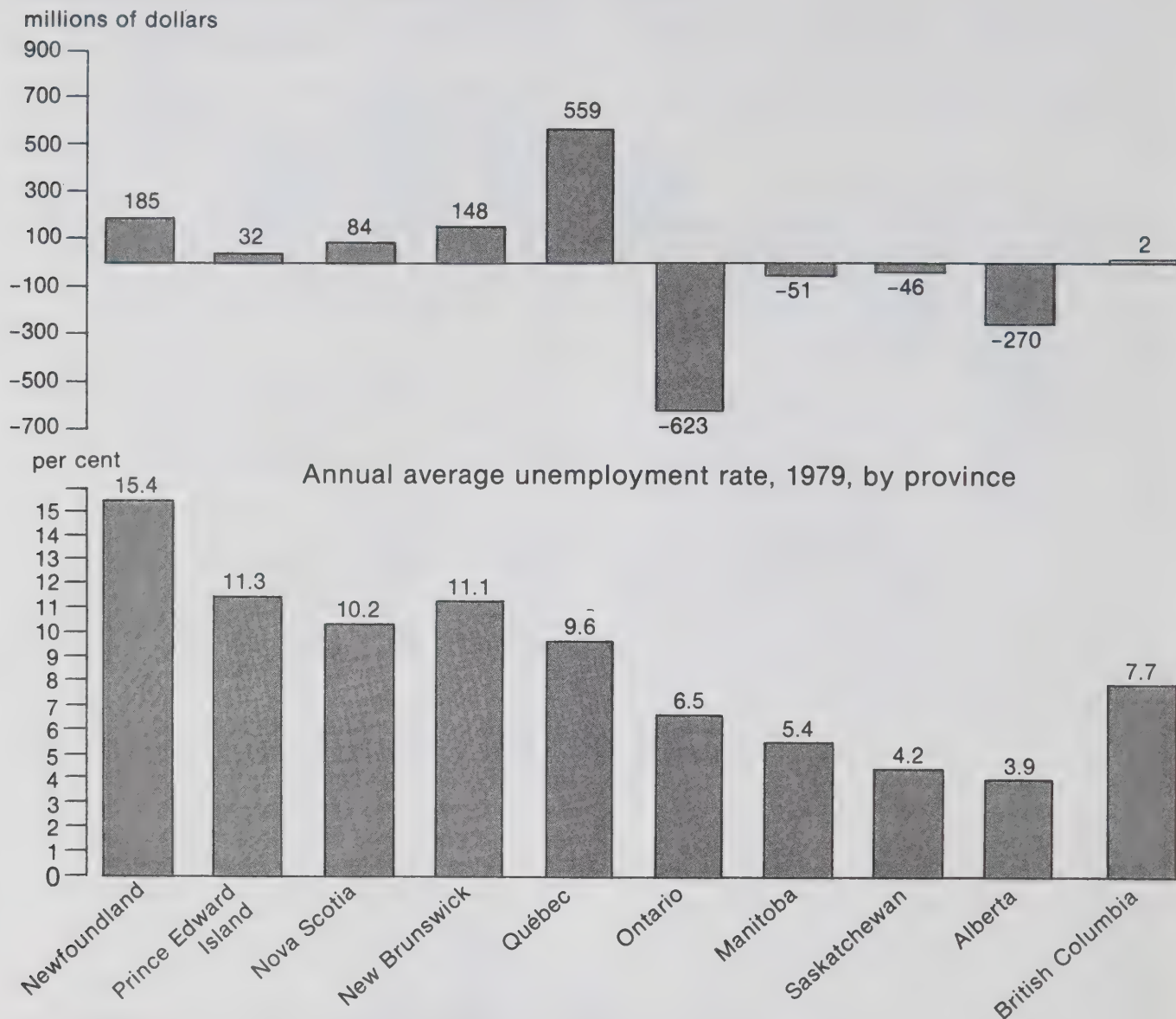
Eighty per cent of benefits paid in 1978 were to people with incomes below \$12,000, while this group paid 24 per cent of total program costs. The redistribution from higher to lower income people was \$2.5 billion (Figure 4-2).

Between 1978 and 1980, however, the federal government's share of total program costs fell from 43 per cent to just over 20. Private sector premiums increased to make up the difference. As discussed, the smaller federal share of the program in 1980 could be expected to reduce the program's redistributive capacity from what it had been in 1978. While data on the redistributive effects of the program in 1980 are not available, calculations have been made of what the redistribution would have been had the federal government's program share in that year been 20 per cent instead of 43. These calculations show that the redistribution would have altered very little. It would still have amounted to a shift of almost \$2 billion between higher and lower income people. This suggests that the redistributive capacity of the program has remained significant in recent years, in spite of the financing changes in this period.

Income redistribution of UI by family income class

In 1978, UI was somewhat less redistributive for families than for individuals. Families with incomes below \$16,000 received 45 per cent of benefits and contributed 15 per cent of total program revenues. Redistribution from higher to lower income families was \$1.4 billion (Figure 4-3).

Figure 4-4
Interprovincial financial transfers through UI, 1979



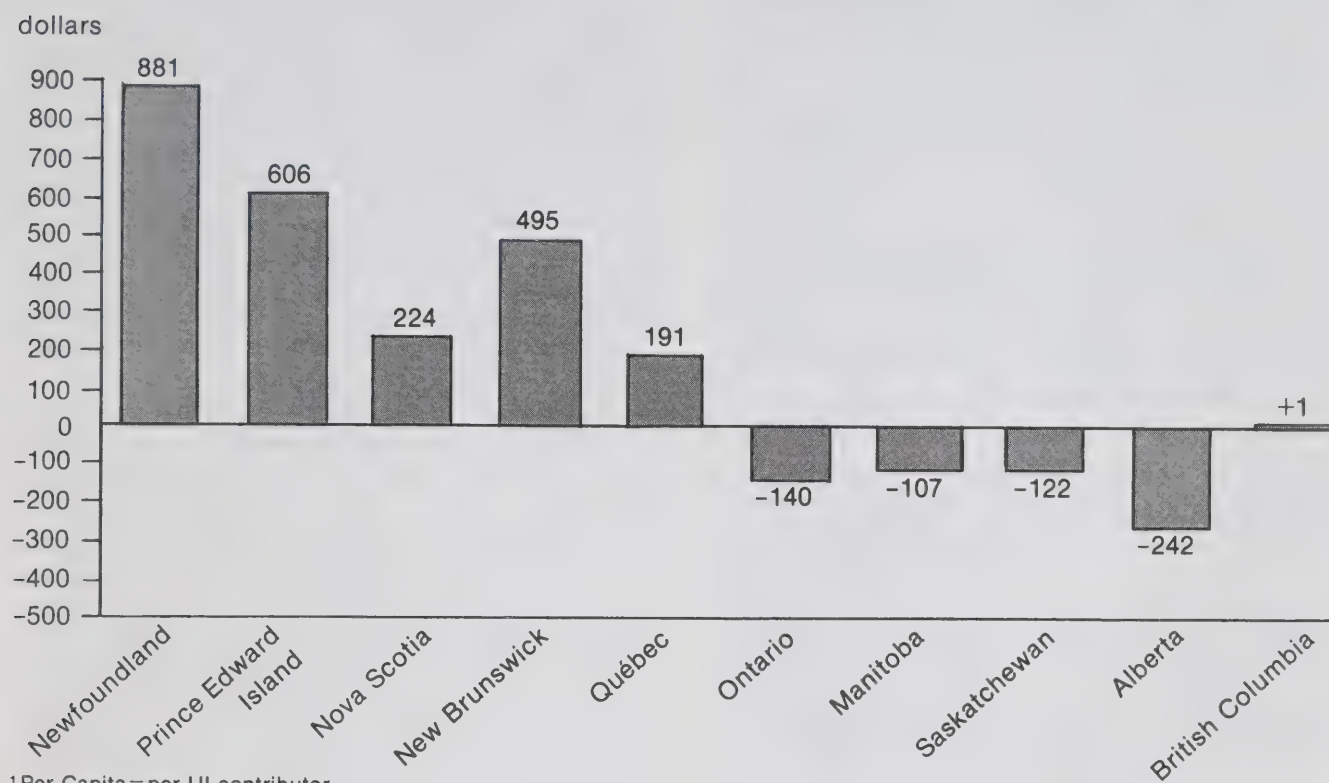
Source: Based on UI administrative data and Statistics Canada, Labour Force Survey

Calculations of what the 1978 family-based income redistribution would have been had 1980 program cost shares prevailed are not available. Evidence from the calculations on an individual and group basis suggests that the redistributive effects on a family basis are not likely to have changed substantially.

This smaller redistributive effect of UI on families versus individuals mainly reflects UI payments to people in multi-earner families. In these cases, while one or more low income people may be members of a family with higher than average income, the benefits received

by these low income workers are credited to the high income family. These people may also pay little or no tax and little in the way of premiums — because of their low wage and/or shorter period of employment. The presence of low income workers in high income families greatly increases the proportion of program benefits these families get, compared to the share of program costs they pay. In turn, this reduces the extent to which the program redistributes income among family income classes versus individual income classes.

Figure 4-5

Per capita¹ interprovincial financial transfers through UI, 1979¹ Per Capita = per UI contributor

Source: Based on UI administrative data

Interprovincial and inter-regional income transfers through UI

Just as UI shifts the net cost of unemployment away from higher unemployment (low income) groups, the costs of unemployment are shifted away from high unemployment provinces. The Atlantic provinces, Québec and to a lesser extent, British Columbia, have benefited from the net redistribution (Figure 4-4). For example, in 1979, the eastern provinces received a net transfer of approximately \$1 billion from Ontario and the Prairie provinces. To compare, the net transfer to Québec and the Atlantic provinces from the federal Equalization Program was \$1.7 billion in fiscal 1979-80. On a per contributor basis, Newfoundland, Prince Edward Island and New Brunswick received the largest net transfers under UI in 1979 (Figure 4-5).

In recent years, the size of the net transfer to eastern Canada has remained relatively stable, hovering around \$1 billion since 1977. These five provinces have also maintained a relatively constant share of the net redistribution throughout this period (Table 4-1). The stability of the transfers is remarkable in light of the substantial changes that have been made to the UI program.

These have included major changes in entitlement and benefit structure as well as in financing arrangements. However, the transfer to British Columbia, the only other receiving province, has fluctuated over the period, from a low of \$2.5 million in 1978 to a high of \$58.5 million in the next year.

Table 4-1

Per cent of total UI benefits paid to each province

	Old Act 1966-67	1971 Act 1978
Newfoundland	5.8	5.5
Prince Edward Island	1.0	1.0
Nova Scotia	5.5	4.8
New Brunswick	5.3	5.5
Québec	31.3	37.5
Ontario	29.0	25.6
Manitoba	3.5	2.9
Saskatchewan	2.8	2.0
Alberta	3.8	3.2
British Columbia	11.9	11.8

Source: Based on UI administrative data

Regional extended benefits play an important part in the transfer. Of the \$900 million paid in regional extended benefits in 1978, \$635 million (72 per cent) went to the five eastern provinces. However, even without extended benefits, the transfer would have totalled about \$540 million.

This redistribution of income accentuates the importance of UI as an income protection measure in some income groups and provinces. In 1978, for example, UI benefits constituted about five per cent of total personal income of people with incomes in the lowest 40 per cent. Provincially, UI played a correspondingly key role. In the same year, UI payments were eight per cent of total personal income of Newfoundland residents. In 1979, by comparison, UI payments were two per cent of total personal income in Canada.

Role of UI in economic stabilization

UI benefits significantly cushion reductions and interruptions in income brought about by downturns in business activity and employment. Through the program's income redistribution role, transferring income from the employed to the unemployed through pooling the costs of unemployment, disposable income is maintained along with patterns of consumption, albeit at a lower level. By helping to maintain demand, the program makes it less likely that unemployment will spread to other firms and workers.

UI is particularly responsive because it pays benefits directly and automatically to the people involved. It is not dependent on or delayed by explicit legislative or administrative action other than the need for the claimant to submit the necessary documentation. By operating as an automatic stabilizer the program has the advantage of responding quickly to changes in economic conditions. The program, by paying benefits directly to the unemployed, is an efficient transfer system in areas of continuing high unemployment. The regular payment of large amounts of benefits into such areas also promotes more economic stability. Whether high unemployment is transitory or long-term, UI also contributes to social stability. Maintenance of income reduces the most extreme individual reactions to joblessness and contributes to the continued economic viability of the community in the short term. As a case in point, the income flow from UI has helped to maintain the social and economic stability of Windsor, Ontario during the recent large-scale automotive layoffs.

Although UI's role is clear in fostering economic and social stability through its income transfer effect, its

contribution to reducing the cyclical fluctuations in overall economic activity is much less clear. In general, a stabilizing mechanism reduces the extremes in a business cycle by reducing overall disposable income and consumption in periods of strong economic activity and increasing these when economic growth is slow. In a given period, UI can contribute to such economic stabilization through the difference between benefits paid and revenues collected. Benefits tend to respond automatically to changes in economic conditions; they increase by an estimated \$400-\$500 million for each percentage point rise in the unemployment rate. As unemployment increases, higher benefit payouts help maintain demand, stabilize employment and prevent further unemployment. However, if at the same time UI revenues (premiums and taxes) rise by as much or more than the increased benefits, they offset the latter's stabilizing action and may even be destabilizing. The overall economic stabilization effects of UI thus depend on how the government and private sector revenues compare to UI benefit payments during the same period.

The impact of government revenues on UI's stabilization effects will be influenced by the fiscal arrangements the government makes in financing its share of UI, as well as the size of the share itself. Important in this respect is whether changes in the government's program costs alter its deficit or simply represent transfers of funds to or from other uses. Because the factors which influence the government's financing of UI rest outside considerations of UI alone and within the scope of overall fiscal policy, it is not possible to state definitively how changes in the government's UI contribution will affect economic stabilization.

However, the amount of premium revenue gathered to finance the private sector's share of UI costs (currently at about 80 per cent) is greatly dependent on the premium rate employer and employee contributors are charged. Premium rates may be set to generate a surplus over benefit payouts, a deficit, or a balance. Premium rates thus influence the extent to which the UI program contributes to economic stabilization.

Changes in the surplus or deficit in the private sector's UI account determine the size of premiums' contribution to economic stabilization. Since 1972, the overall balance in the account has not changed annually by more than \$600 million. These amounts are relatively small in comparison to total federal budgetary measures aimed at fiscal stabilization. For example, the federal deficit during this period reached a level of \$11.3 billion.

That premium revenues and the premium rates which determine them play a less important role in economic stabilization is due in some degree to the system by which the rates are currently set. Since the 1971 UI Act, premium rates have been set to strike a balance between premium rate stability and the ability of premiums to cover the private sector's UI costs. If fully stable premiums were the sole objective of premium rate decisions, substantial deficits or surpluses in the private sector's UI account would have been required to absorb the year-to-year changes in benefits. On the other hand, strict emphasis on covering the varying annual costs of benefit payouts would have led to more frequent changes in the premium rate. The premium rate system has thus aimed to cover private sector costs, not on a year-by-year basis but over a two- or three-year period. This approach has relied on some variation in the private sector account surplus or deficit to keep premium rates stable for two or three years at a time.

Operating under this system, premium rates have not sought economic stabilization as a principal objective, although it could be seen as a desirable side-effect. Furthermore, premium rates could actually be destabilizing, if they rose to eliminate a private sector account deficit at the same time as economic activity was declining.

UI thus contributes significantly to income stabilization through its capacity to redistribute income from the employed to the unemployed. This contribution is automatic and maintains the purchasing power of high

unemployment income groups and regions which limits further unemployment. However, UI's contribution to stabilization through its financing arrangements is comparatively limited. Variation in UI premium rates is the main vehicle for this, and its stabilizing effects are restricted both by the basis on which the rates are established and by the limited variation possible in the private sector's UI account.

Summary

These discussions confirm the central importance of income protection as an objective of UI. They also establish its unique contribution, as a social insurance program, to the economic security of workers in Canada. As a social insurance program which pools the costs and risks of unemployment, UI brings about a significant redistribution of income to high unemployment income groups and provinces. This redistribution helps to ensure that UI benefits go where they are most needed, satisfying concerns over the program's equity as well as its cost-effectiveness.

UI's income redistribution also contributes automatically to income stabilization. This helps to maintain both the purchasing power and the social stability of high unemployment areas and groups. This contribution, a direct reflection of the program's income protection role, appears much more significant than the extent of economic stabilization attributable to UI's financing provisions.

Chapter Five

The Labour Market Role of UI

The intended effects of the UI program

Unemployment Insurance is intended to play a key role in helping the national labour market adjust to trade- and demand-induced changes in production and employment patterns. The main function of UI as part of labour market policy is to provide adequate financial protection during temporary unemployment to facilitate labour market adjustments. This is done either through financing the job search or providing income to people on temporary layoff. UI is intended to provide the necessary money and time to get the best possible match between unemployed workers and available jobs. By protecting the incomes of people displaced by the adjustment process, UI plays several specific roles in aiding the redeployment of human resources.

First, the very existence of UI as an income alternative to earnings from employment ensures that market forces leading to employment adjustments can operate without devastating impact on the economic security of those affected. If UI were not available to do this, governments might be more frequently called upon to shore up unprofitable industries or firms to protect the incomes of the employees. This would prevent or postpone the employment rationalization and the ensuing adjustment process and prolong the unproductive employment of workers. In turn, it would cause an increasing drain on government funds which could be put to other, more productive uses. In the long run, it would not be a permanent solution to the basic unprofitability of the enterprise. The failure to facilitate labour adjustments could also contribute to skill shortages and a resultant failure of the economy to realize its output and employment potential. UI thus provides a basic underpinning to the operation of the labour market, making possible the adjustment process through which human resources are redeployed to meet changing needs.

It should be understood that the labour market adjustment process is extremely complex and varies with each situation. For example, the adjustments required for a complete plant shutdown differ markedly from those appropriate for a temporary layoff of workers.

In the case of plant closures, UI is intended to underwrite the job search process. It provides money and time for workers to seek a new job appropriate to their skills either locally or elsewhere in Canada. By removing the immediate threat from unemployment — financial disaster — UI relieves jobseekers of the need to yield to immediate economic pressures by accepting jobs unsuited to their skills or abilities. It permits a more systematic or wide-ranging job search contributing to the efficient reallocation of human resources. Although UI may result in longer periods of unemployment because of a lengthier job search, that time will be well spent if it increases a claimant's chances of successful job search, i.e. finding and keeping a new job appropriate to the claimant's skills and experience.

It is not possible to measure with any precision UI's specific contribution to labour market adjustments in these circumstances. However, some illustrative information is available from a 1976 survey of claimants. A national sample of ex-claimants was surveyed and data gathered on post-claim wages and other labour force experience, as well as their attitudes to their pre- and post-claim jobs. The data showed that only one-quarter of those claimants who returned to different jobs after their claim reported lower wages than in their pre-claim job. This finding must be significantly qualified by continuing wage rate appreciation over time, but it still suggests that the job changers, on balance, avoided large wage sacrifices in getting new jobs. The survey also found that two-thirds of the job changers reported their new job as better than the old, for the largest single reason that they found the work more interesting.

It is not possible to attribute these results directly and solely to UI. But the question can be raised whether, without UI, immediate economic pressures might not have resulted in more claimants accepting lower paying or less satisfying jobs.

When there are temporary plant layoffs, on the other hand, UI is not intended to help people find other jobs. Rather, UI's labour market objective is met by providing income protection to laid-off workers, so the

employer keeps an experienced labour force intact. This saves employers the cost of recruiting and training new employees after a layoff. It also saves the employee from going through extreme dislocation to prevent financial hardship.

In both situations, UI must have enough flexibility to take into account prevailing economic circumstances which may limit the availability of other jobs and extend jobseekers' unemployment. In the Canadian UI program, this flexibility is provided as longer benefit durations are triggered by rising regional unemployment rates. This permits the program to react quickly when sluggish business conditions increase jobless durations.

In short, for plant closures and layoffs, UI also has the ability, for extended periods, to protect income from either cyclical changes in overall business activity or from more localized employment deterioration. To workers affected by plant closures, this extends the time job search assistance is given in markets with fewer than usual job opportunities. Workers on temporary layoff can also absorb a longer period without earnings if recalls are slowed by poor demand. In either case, UI's response is flexible enough to be partly conditioned by prevailing economic circumstances.

Finally, UI is not designed to bring about, by itself, long-term structural adjustments when workers' re-employment is inhibited by structural factors such as their inappropriate skills or location for existing vacancies. UI is only a first line of defence in these circumstances, playing its adjustment role best by buying time for other labour market adjustment measures such as training or mobility.

It is clear that UI must be flexible enough to respond to the varied needs of individual situations. Its income protection objective offers this flexibility by providing eligible workers, automatically and immediately, with money and time to cushion them against the most disruptive consequences of the workings of the labour market.

Some negative effects on work patterns

So far, the analysis has concentrated on the positive role of UI in labour market adjustments. But this positive role can be contrasted with the potentially negative impact of UI provisions on work patterns. There is a conflict between paying benefits and the possibility that a generous UI program may be a disincentive to work. Ultimately, concern about the influence of UI on work patterns focuses on whether or not it results in increased unemployment. Therefore policy decisions on benefit rates, duration of benefits or entrance requirements

depend in part on knowing the nature and extent of UI's influence on work patterns. Concerns over work disincentives, however, must be balanced against UI's role in protecting incomes and achieving better job matches.

The availability or an increase in benefits of UI may affect people's behaviour in two distinct ways. It may give some people an incentive to be unemployed and it may provide an impetus for some to become or remain labour force members rather than being outside. This distinction is important because while both behaviours may influence people's work patterns and, in turn, unemployment, only the first can be called a disincentive to work. The second is a participation rate effect. It touches people who would not be working in the absence of unemployment compensation, but would be induced to do some work in order to qualify for UI.

The reason for the work disincentive effect is that from the individual's point of view the availability or increased generosity of UI reduces the monetary cost of unemployment relative to employment. This makes unemployment more attractive (or less unattractive) than it would be without UI. The effect is either to induce some people to have more spells of unemployment by quitting jobs more often (the incidence effect) and/or to prolong whatever spells of unemployment they may have (the duration effect).

These effects assume that, because of UI, people who would be working choose to be unemployed more often or longer. Therefore, the increase in unemployment that results comes at the expense of employment. However, it is possible that the time spent in unemployment may be desired not merely as more leisure, but also to allow time for extended job search. To the extent that job search, subsidized by UI, improves labour market efficiency by leading to a better job match, the output loss from more unemployment may be counteracted by increased labour productivity and reduced longer-term or structural unemployment.

It may also be that unemployment insurance affects work patterns by encouraging increased labour force participation. The possibility of being eligible for benefits after a brief minimum qualifying period may make it attractive for some people to work who would not in the absence of UI. Because, in some situations, remuneration for work consists not only of the wage paid, but also of an entitlement established for subsequent UI benefits, the monetary value of an hour of work is potentially higher, perhaps much higher, than it would be without UI. Consequently, some people who might not have found it worthwhile to work at the market wage alone may now do so after taking into account the unemployment insurance benefits for which they

become eligible. Others, who would have left the labour force in the absence of UI, may remain in the unemployed labour force to draw benefits.

Evidence of UI's impact on unemployment

The extent to which unemployment insurance will lead to greater unemployment depends on the importance of the effects already mentioned. It also depends on any macro-economic effects resulting from the government financing its share of UI program costs by increasing its budgetary deficit. It is felt that the work disincentive effect will tend to increase unemployment, but the impact of the participation rate influence is less clear. Some people are encouraged to accept or keep jobs just to qualify for benefits, but many may remain productively employed rather than going on UI. To the extent that these people remain in their jobs, the unemployment rate will not be increased. The extent to which they tend to remain in the labour force and draw UI benefits, however, will cause the unemployment rate to rise. Any increases in unemployment these effects bring about may be limited to some extent by increases in aggregate demand which will occur if the government increases its deficit to finance its share of the rising UI program costs.

This discussion points to the difficulty of measuring the exact magnitude of UI's impact on unemployment. The Task Force has not conducted any new studies on this, but several earlier Canadian studies¹ support the general conclusion that measured rates of unemployment have tended to shift upward with the increased availability of unemployment insurance in 1971. There is no general agreement, however, on the precise extent of this upward shift. Indeed, the various quantitative estimates of unemployment rate increase attributable to the 1971 revisions range from as little as 0.5 to as much as 1.3 percentage points, depending on the assumptions used.

The precise effect on unemployment of a major change in the program, let alone the effect of the

program as a whole, is difficult to estimate. The evidence is somewhat less ambiguous on some of the underlying relationships that determine UI's impact on unemployment, such as the duration on claim. A study by Maki² found that a 34 per cent increase in the ratio of benefits to wages, mainly due to the 1971 UI revisions, resulted in a 24 per cent lengthening of claim duration. This is an increase of 2.5 weeks nationally. However, the increase ranged from 1.5 weeks in the Prairies and Ontario to about 3.5 east of Ontario.

Other studies³ have tended to confirm these general results for Canada, while finding evidence that the duration increase associated with UI liberalization was more pronounced for males than for females. Some of the studies also show the 1971 changes resulted not only in an increase in unemployment duration, but also in higher rates of job leaving, i.e. a greater number of unemployment spells, especially of young people and adult women⁴. Finally, it should be mentioned that these results for Canada, indicating both a lengthening of unemployment spells and an increase in their number, are supported by several US studies⁵.

It should be noted that most of the Canadian studies cited above focussed on the UI program of the early 1970s and specifically on the unemployment effects of the enriched provisions of 1971. These studies predate the important design changes since 1975 aimed at strengthening work incentives. The post-1975 changes could be expected to reverse the effects the program has on measured unemployment. The result is that the impact of the present UI program is probably smaller than the effects identified above. Nevertheless, the above evidence suggests that UI may increase measured unemployment either by lengthening its duration or increasing the number of people on claim. These effects must therefore be kept in mind in decisions on the redesign of specific program features.

¹ See, for example: Herbert G. Grubel, Dennis Maki, and Shelley Sax; "Real and Insurance Induced Unemployment in Canada", *Canadian Journal of Economics*, Vol. VIII, No. 2, (May 1975), pp. 174-191. Christopher Green, and Jean-Michel Cousineau; *Unemployment in Canada: The Impact of Unemployment Insurance*, The Economic Council of Canada, Ottawa: Supply and Services Canada, 1976. Tom Siedule, Nick Skoulas, and Keith Newton; *The Impact of Economy-Wide Changes on the Labour Force: An Econometric Analysis*, The Economic Council of Canada, Ottawa: Supply and Services Canada, 1976. G.V. Jump, and S.A. Rea; *The Impact of the 1971 Unemployment Insurance Act on Work Incentives and the Aggregate Labour Market*, Toronto: Institute for Policy Analysis, University of Toronto, 1975.

² D. Maki, "Unemployment Benefits and the Duration of Claims in Canada", *Journal of Applied Economics*, 1977 (9), pp. 227-36.

³ F. Lazar, "The Impact of the 1971 Unemployment Insurance Revisions on Unemployment Rates: Another Look", *Canadian Journal of Economics*, August 1978, pp. 559-70. S. Rea, "Unemployment Insurance and Labour Supply: A Simulation of the 1971 Unemployment Insurance Act", *Canadian Journal of Economics*, May 1977, pp.263-78. N. McIlveen and H. Sims, *The Flow Components of Unemployment in Canada*, Special Labour Force Studies, Series A, No. 11, Statistics Canada, Cat. No. 71-527E, July 1978.

⁴ See F. Lazar, *ibid.*

⁵ For a review of some of these studies, see D.S. Hamermesh, *Jobless Pay and The Economy*, The Johns Hopkins University Press, Baltimore: 1977, pp.32-39.

Other program evidence on the impact of UI

There is no conclusive macro-economic measure of the impact of UI on unemployment, but there are indications from the operation of the program pointing to the direction of UI's impact on work patterns. These come from studies of the behaviour of "exhaustees" — people who use up their last week of benefit entitlement. Indications also come from information on the employer-based impact of UI through the effect on prices, wages and other production costs.

Evidence from behaviour of UI exhaustees

Claimants are said to exhaust their benefits if they are still on claim when their entitlement ends. An examination of the labour market patterns of exhaustees indicates how UI may have influenced the labour market behaviour of certain unemployed people.

A 1976 CEIC survey of exhaustees sheds some light on their pre- and post-exhaustion employment experiences. In general, the survey found that, after exhaustion, exhaustees still in the labour market enjoyed a moderate amount of labour market success that had eluded them while they were on benefits. (On average, they had collected for 36 weeks.) Specifically, the survey discovered that almost two-thirds of exhaustees found work at some time in the six months following exhaustion. It also found that of these

- 56 per cent found work, on average, within six weeks after exhaustion, and
- 60 per cent worked for at least four of the six months after exhaustion.

The marked post-exhaustion employment success of such a large proportion of exhaustees contrasts sharply with their labour force experience while on claim. This raises the question of whether receipt of UI benefits may have led some people to remain voluntarily unemployed, seeking work seriously only after their benefits ended.

The survey results also cast some doubt on the seriousness of the labour force attachment of a fairly sizeable proportion of exhaustees. Among those exhaustees who reported leaving the labour force for varying lengths of time following exhaustion, 51 per cent were not in the labour force at all in this period. As many as 13 per cent of all exhaustees surveyed might be seen as quite permanent labour force drop-outs.

Even among the remaining exhaustees who left the labour force for only part of the post-exhaustion period, for many, their drop-out was of considerable duration. For example, about half spent anywhere from 11 to 25

weeks (out of the possible total of 26) neither working nor looking for work, while another quarter of them were out of the labour force from six to ten weeks.

The results of the survey, therefore, imply that UI benefits may, in some instances, go to people whose attachment to the labour force is tenuous and who may have been induced by the availability of benefits to stay in the labour force, but unemployed. It is also worth noting that as little as four per cent of all exhaustees in the survey had to resort to welfare.

In summary, the evidence from the behaviour of exhaustees shows that the impact of UI benefits on the length of unemployment may be of considerable concern.

Effects of UI on wages, prices and production costs

The possible negative effects of UI discussed so far pertain to the labour market behavior of employees. It must be recognized, however, that there also is a potential employer-based impact of UI on prices, wages and other production costs.

As mentioned, most UI program costs are shared by employers and employees through the payment of premiums. In 1980, employers and employees paid about 80 per cent of the \$4.8 billion UI program, with the balance being borne by the government.

The employer's premiums can be considered a form of payroll tax reflecting the number of the firm's employees in insurable employment. This adds to the employer's operating costs and increases the price of labour relative to capital from the employer's point of view. But though the premium payments are assessed against the employer, it is not possible to be sure if employers simply bear these premium costs themselves in reduced profits or if they may be able to pass the costs on either to consumers through higher prices or to employees by lower wages.

Even though it is impossible to know how the premium cost is ultimately borne, it is important to note that those firms (and workers) prone to employment instability pay no higher premiums than those with more stable patterns, even though the former are more likely to use the program.

Indeed, the very existence of unemployment insurance may accentuate the use of layoffs as a cost-reducing device. These situations will occur when firms are able to rely on UI to provide an income cushion to those employees — often seasonal workers — whom the firm prefers to lay off in response to annual variations in activity. These workers can survive the seasonally inactive period through UI benefits. If UI were not available,

it is likely that many such workers would only offer their services to the employer for a high enough wage or a longer period of time to make a greater contribution to income during the off-season, and these wages might strain the employer's capacity to pay. Alternatively, these workers might take other jobs if they were available or move to localities where jobs can be found.

Firms prone to extensive unemployment do not have this use of UI reflected in their premiums or in their production costs and prices. Evidence shows very strongly that some industries (specific data relating to individual firms do not exist) pay far more in UI premiums than they draw in benefits, while other industries regularly get far more in benefits than they contribute in premiums.

For example, Table 5-1 shows that the 1977 ratio of benefits withdrawn to premiums paid (in terms of relative cost ratios⁶) was five times higher in the forestry industry than the average. It was almost 2.5 times higher in construction, and twice as high in fishing and trapping. In the education and medical services sectors, however, the ratio was barely one-third of the national average.

Table 5-1

Relative cost ratios for selected industries, 1977

Agriculture	1.50
Forestry	5.09
Fishing and trapping	2.10
Mining	.67
Manufacturing, non-durable	1.24
Manufacturing	.87
Construction	2.46
Transportation	.58
Communications	.36
Retail trade	.84
Education	.38
Hospitals	.38

Source: Based on UI administrative data and Statistics Canada, Absence from Work Survey.

To the extent it can be argued that production costs and prices in the various sectors should reflect the different degrees of reliance on UI, the pattern shown in Table 5-1 may be said to show a subsidization of the operating costs of those firms prone to unemployment by those with more stable employment patterns. To meet their own unemployment costs, firms in the forestry

industry would have to pay premiums five times the average and those in fishing 2.5 times the average. Firms in the education and hospital sectors should be assessed only about one-third the national average.

The practice of relating premiums to the degree of unemployment and worker layoff is called experience rating in the US, where the practice is used. Such a system would no doubt greatly reduce or prevent the subsidization of some firms' high unemployment costs by others.

In Canada, however, it would amount to a substantial limitation of the pooling of unemployment costs now built into the Canadian program. It would reduce the extent of inter-regional sharing of costs — a characteristic which has always been fundamental to the Canadian UI program. The potential benefits of experience rating, in having firms' costs and prices reflect their reliance on UI, would also have to be carefully weighed against the considerable administrative impact for employers and government entailed by its introduction.

UI and mobility

One of the most contentious issues concerning UI and labour market adjustment is the possible effect the program may have on worker mobility. In the labour market of the 1980s, migration is expected, overall, to play an important positive adjustment role, although in some areas the effects of prolonged population loss may not be economically beneficial. In the overall adjustment context, therefore, the factors affecting mobility assume great importance.

The income protection provided by UI can both enhance and impede mobility. UI may encourage mobility by providing the income support to enable a person to move and seek work. In essence, the potential availability of unemployment insurance, for individual workers, reduces the risk of making a move in case it should prove unsuccessful. This reduction of risk should make workers less reluctant to change jobs and/or geographic locations and less resistant to the structural adjustments necessary for change and growth. Such an effect of UI on mobility would therefore be beneficial in economic terms, since it would underwrite the migration of people seeking jobs elsewhere in the country. Indeed, it may help account for the finding in a recent study of Newfoundland⁷ indicating a marked willingness on the part of unemployed Newfoundlanders to look for and take jobs outside their own locality and even outside the province.

⁶ The ratio of total UI benefits withdrawn in an industry to premiums paid by the industry, relative to the all-industry average.

⁷ Economic Council of Canada, *Newfoundland: From Dependency to Self-Reliance*, Ottawa: 1980.

Although the income protection of UI can support migration and labour market adjustment, the very existence of an extensive UI system may also inhibit mobility. People who regularly experience unemployment (often seasonal) can develop a pattern of dependence on UI in the off-season which adds enough to their earned income that they can maintain their lifestyle without having to migrate. Absence of UI, or a less extensive program, could reduce their ability to establish this dependence and lead some to move for more stable jobs.

These mobility inhibiting effects of UI may be accentuated by the regionally differentiated design of the current program. This design allows workers in high unemployment areas both to qualify more easily for benefits and to receive longer duration benefits than those in other regions. For example, UI provisions now allow someone in Newfoundland to work ten weeks to qualify for 42 weeks of benefits. But an Albertan must work a minimum of 14 weeks for 14 weeks of benefits. The combination of lower entrance requirements and longer benefit durations may make the decision easier, for many, to stay rather than move. For others who have already migrated from high unemployment areas, the longer benefit entitlements in their home communities may play some part in the decision to return home if they become unemployed in their new communities. The main reasons for such return migration are likely to be the lower costs of being unemployed and the psychological support of friends and relatives in their home towns, but the longer UI benefit entitlements may subsidize their return home and prevent or delay their subsequent departure. By moving away from areas of job opportunity to those of high unemployment, return migrants likely reduce their chances of finding a job

quickly and impede overall labour market adjustment. UI and its regional design features may contribute to these adjustment difficulties.

Just as the measurement of the impact of UI on labour market adjustments in general is difficult, so is any precise measurement of the specific influence of UI on mobility, because of the complexity of forces impinging on the mobility decision. Nevertheless, data do exist which raise the possibility of a link between UI and mobility. In the first half of the 1970s, the Atlantic provinces' position as a net loser through migration was reversed (Table 5-2). This occurred at a time when UI, as well as other federal transfer and income support payments to this region, increased dramatically. Between 1966-67 and 1972-73, UI payments in the three Maritime provinces expanded almost five-fold. Pronounced increases also took place in Old Age Security, Guaranteed Income Supplement and Canada Pension Plan expenditures, as well as in social assistance payments. Although other economic factors undoubtedly contributed to the migration reversal, it would be surprising if the expansion of federal transfers had not also played a role, making the decision to stay an easier one by adding to the income of people who stay.

The recent Economic Council of Canada study of Newfoundland also provides evidence of possible effects of UI on migration⁸. While the study found Newfoundlanders quite willing to move to get jobs, it also revealed a high degree of return migration of native Newfoundlanders. These return migrants had very high unemployment rates in spite of their high incomes before

⁸ Economic Council of Canada, *op. cit.*, pp. 53-58.

Table 5-2

Total in-migration, out-migration and net migration between Atlantic provinces and the rest of Canada, 1966-71 and 1971-76

	1966-1971			1971-1976		
	IN	OUT	NET	IN	OUT	NET
	(thousands)					
Newfoundland	32.0	50.0	-18.0	48.0	47.3	+ 0.7
Prince Edward Island	10.5	13.2	- 2.7	13.8	11.1	+ 2.7
Nova Scotia	82.5	102.0	-19.5	92.2	81.7	+10.5
New Brunswick	70.8	88.6	-17.8	81.9	65.9	+16.0
TOTAL	195.8	253.8	-58.0	235.9	206.6	+29.9

Source: Based on Statistics Canada, *International and Interprovincial Migration in Canada*

returning to Newfoundland. This suggests that these return migrants may have been workers who, having become unemployed elsewhere, returned to Newfoundland for the duration of their unemployment.

As noted, decisions to return home when unemployed may be motivated by the lower cost of living at home and the psychological support home communities can provide. But it also raises the question of the part played in these decisions by UI in general and its more generous provisions in high unemployment areas in particular.

While the evidence is tentative, these concerns over the mobility inhibiting effects of UI must be kept in mind in the labour market context of the 1980s, in which migration is expected to play a positive adjustment role despite possibly less beneficial impacts in areas of extensive out-migration. This raises the questions of whether, at the least, UI program design could be made more neutral in its mobility impacts, to reduce any mobility inhibiting effects its design may foster. It also raises the general issue of balancing efforts to encourage mobility with measures to promote economic development in high unemployment areas which otherwise might experience the negative effects of extensive out-migration.

Summary

Earlier discussions led to the conclusion that, although the existence of UI helps labour market adjustment, specific program features may do one of two things. They may work against the labour market's effective operation or interfere with the ability of other labour market programs to help bring about needed adjustment. In spite of UI's flexibility in responding to permanent plant closures and temporary layoffs, program data show that some UI provisions may add to observed unemployment by affecting work patterns and attachments and by influencing mobility decisions.

Employees and employers will generally act in their own best economic interest. UI, by influencing this interest, can affect the labour market behaviour of both groups. UI may be one of the factors affecting labour market decisions, and may result in extensive dependence on the program. This result, while it cannot be called abuse, does raise serious questions about the program's effect on work incentives and labour market activities. Specific program changes to strengthen UI's labour market role, while acknowledging the program's basic labour market objective, should seek to minimize the effects of those program design features which inhibit the operation of the labour market at large.

Chapter Six

Program Objectives and Implications for Design

This analysis has discussed the dual role of UI within the Canadian social security and labour market systems. As a social security program, UI protects the incomes of workers in Canada from unemployment-induced loss. In providing workers with money and time to find other jobs, it also meets a significant labour market objective—the best match between workers and jobs.

The important connection between the income protection and labour market roles of UI has been explicitly recognized since the first UI Act in 1940. The Act made the National Employment Service an important part of the unemployment insurance system in Canada. Even between 1965 and 1977, when labour market and UI policies and programs were developed and administered separately, the duality remained unbroken. The integration of the two organizations in 1977 reflected the inseparability of UI's two roles and indicated the need for closer links between UI and other labour market programs, including the employment services.

The two objectives are largely reinforcing. Benefits are based on the person's work attachment and are paid only for a prescribed period in which it is expected the person will find another job. The worker's ability to look for and find an appropriate job is in turn enhanced by the UI benefits. In spite of this mutual reinforcement of objectives, however, there have been important tradeoffs between them. Concerns about the adequacy of income protection have conflicted with concerns about the program's impact on work patterns and attachments. In the view of the Task Force, it is the balance between these two objectives that has been at issue, rather than the basic objectives themselves.

The discussion to date has also shown that the labour market of the 1980s will be marked by employment dislocations and by the need for significant labour market adjustments to take advantage of emerging opportunities. In this context, therefore, the twin objectives of UI will continue to be valid. Workers affected by employment dislocations will need UI's income protection to ensure their economic security, at least over the short term. On the other hand, UI and other nation-

al labour market measures will be called on to help and support the redeployment of Canada's human resources to their most productive use.

UI's income protection role will be maintained through its continuation as a national social insurance program, pooling the cost of unemployment and sharing it among the minority suffering the employment dislocations and the majority who benefit from the more productive use of human resources. UI's capacity to ease labour market adjustments will be enhanced by its national scope. Portability of benefits across Canada and provisions designed to contribute to a national objective will confirm the program as part of a national labour market strategy.

It was also pointed out, however, that while UI's income protection capacity gives it a central income protection role, its contribution to labour market adjustments may be weakened by its impact in such areas as work incentives or mobility. While the program seeks to ease labour market adjustment, some program design features may tend to inhibit this. To improve the program's operation in the 1980s there is thus a need to strengthen UI's contribution to labour market objectives. Specifically, ways will have to be found to reduce or remove the barriers to labour market adjustments contained in its present design.

In program design terms, strengthening the program's contribution to labour market objectives implies several things.

- Entrance requirements could be increased to strengthen work attachments.
- Benefit durations might be reduced to strengthen job search incentives and reduce the seasonal cycle of dependency on UI which may exist in some areas.
- Penalties could be increased for people who show a disinclination to work, such as those who voluntarily quit without just cause.
- Developmental uses of UI funds could be re-examined and strengthened to permit UI to contribute more positively to labour market objectives.

- Potential impediments to increased labour mobility, inherent in program design, might be reduced.

Changes in the program's design features to improve its contribution to labour market objectives will extend a process of design change that has been almost continuous since 1975. The review of this process presented earlier suggests that there are dangers in pursuing one objective, like adjustment, through program redesign without enough concern for the balance among other program features, notably income protection. Future design changes must therefore carefully consider other major aspects of the program in addition to its labour market effects. These include questions of equity, the effects of program complexity on administration and its public comprehension and, of course, the continuing concern about program cost-effectiveness in an atmosphere of government expenditure restraint.

In specific program terms, considerations of program equity call for a review of the program's treatment of particular claimant groups such as new entrants, re-entrants and repeaters, as well as those seeking special benefits (maternity, sickness and retirement). The extent to which the program design reflects regional differences is a further important aspect of the equity question, as is the question of whether the program can or should be changed to improve its ability to distribute benefits to those needing them most. In its broadest sense, the equity of the program's overall treatment of women also requires examination, in view of their increasingly important labour market role in the 1980s.

The issue of complexity has major design implications for a large number of program features whose present provisions inhibit public understanding of the program, administrative ease, or quality and speed of service. These provisions include:

- the entrance requirements and benefit structure, including the special provisions for particular claimant groups and regions,
- the rules which determine what employment is insurable,
- the rules governing maternity benefits,
- the regulations governing the treatment of earnings received upon separation, and
- the system by which employers report claimants' insurable employment and earnings.

Concerns for the program's cost-effectiveness are a final viewpoint from which program redesign must be assessed. In an environment of continuing government spending restraint, program design changes clearly cannot add to the government's program costs. At the same time, the private sector, which provides the largest share of the program's revenues, has raised concerns over the effectiveness with which these funds are spent. Cost considerations will thus affect which program design options are chosen and how these are combined for discussion purposes.

In summary, the analysis to this point would suggest that, in seeking the best direction for program changes suited to the anticipated characteristics of the labour market in the 1980s, it will be necessary to consider how to strengthen the labour market adjustment role of UI without detracting in any significant way from its income protection role, which remains fundamental. Other factors besides the program's labour market effects should also be given careful consideration. These include questions of equity, program complexity and cost-effectiveness. In succeeding sections, these general conclusions are discussed in relation to particular elements of the program. Specific suggestions and options for program redesign are developed which reflect the broad directions for program change identified earlier.

Chapter Seven

Entrance Requirements and Benefit Structure

Discussion of entrance requirements and benefit structure is divided into two main sections. The first section is on the entrance requirements and benefit duration. The second is on other benefit structure features such as the rate of benefit, maximum weekly insurable earnings and provisions related to working while on claim.

Entrance requirements and benefit duration

Description of present provisions

Entrance requirements and benefit duration are perhaps the key features of the UI program. It is these which directly affect people's access to benefits and the length of their benefits. The generosity of these features significantly affects the balance between the program's twin objectives of income protection and labour market adjustment.

At present, the basic entrance requirement¹ varies from 10 to 14 weeks of insurable employment in the qualifying period of up to 52 weeks, depending on the unemployment rate in the UI economic region² in which the claimant resides.

However, claimants who have received benefits from an earlier claim during the qualifying period are program repeaters. They require additional weeks of insurable employment, based on the number of weeks of benefits they received in the qualifying period and the unemployment rate in the UI economic region where they live. This provision does not apply in regions with unemployment rates over 11.5 per cent.

Claimants who had less than a combined total of 14 weeks of insurable employment, UI benefits or other weeks prescribed by regulation in the 52-week period preceding the qualifying period are new entrants or re-entrants to the labour force. They are required to have 20 weeks of insurable employment in the qualifying

period. In addition, to be entitled to special benefits (sickness, maternity or retirement), claimants must have 20 weeks of insurable employment in the qualifying period.

Once qualified, claimants serve a two-week waiting period after which they receive benefits according to a three-phase benefit structure, as follows:

- Initial Benefit — one week of benefits for each week of insurable employment, up to a maximum of 25 weeks of benefits in the 52-week benefit period,
- Labour Force Extended Benefit — one week of benefits for every two additional weeks of insurable employment over 25 weeks, up to a maximum of 13 additional weeks of benefits,
- Regional Extended Benefit — two weeks of benefits when the regional unemployment rate is from 4.1 per cent to 4.5 per cent, and an additional two weeks for every 0.5 per cent that the regional unemployment rate exceeds 4.0 per cent, up to a maximum of 32 weeks of benefits.

The overall maximum is 50 weeks of benefits in the 52-week benefit period.

A maximum of 15 weeks of sickness benefits are payable as part of initial benefits to eligible claimants. Up to 15 weeks of maternity benefits are also payable as the first 15 consecutive weeks of initial benefits to claimants meeting additional maternity qualifying conditions. A special lump sum retirement benefit of up to three weeks is payable outside the context of the benefit structure to eligible claimants aged 65 years.

Broad directions for redesign

Earlier analysis, focussing on the labour market developments expected in the next decade, has pointed to the need to strengthen the capacity of UI to achieve its labour market adjustment objective. For program design, this implies that the entrance requirements and benefit duration should contribute to a stronger labour force attachment and to more job search incentives for claimants. This, in turn, implies that basic entrance

¹ Section 17 of the UI Act relates to the entrance requirements for regular benefits and is reproduced in Appendix V.

² As of May 1981, Canada was divided into 46 UI economic regions.

requirements should be increased to encourage claimants to work longer to qualify for benefits and that benefit duration should be reduced to enhance claimants' incentives to look for work.

The recent history of UI legislative change implies that these design changes must aim for simplicity and fairness, and that they must also have regard for costs. These concerns and the design changes they suggest, are discussed below.

Program complexity

Current UI entrance requirements and benefit durations are made up of a detailed set of provisions and definitions which appear contradictory and complicated. This makes the provisions hard to understand, explain and administer. In spite of their intent, the requirements contribute to an often complicated set of arrangements governing access to and benefits under the program.

First, the variable entrance requirement (VER) and regional extended benefits provisions are complicated by their basis in the unemployment rates of often small economic regions. Access to and benefits under the program can therefore vary, often considerably, with unemployment rates. This creates variations and apparent inconsistencies in the treatment of claimants from month to month or in adjoining economic regions. This is particularly critical with regard to the VER, where such changes may make the difference between someone qualifying or not qualifying for benefits.

Many special provisions exist as exceptions to the basic arrangements. In the entrance requirements, for example, special provisions exist for several distinct claimant groups. These special provisions add to overall program complexity, since criteria must be developed to identify the special groups and regulations prepared regarding their entrance requirements.

Despite the application of the VER, provisions described earlier exist under which repeat UI claimants (those who received benefits in the 52-week period before their present claim) must meet higher entrance requirements to qualify. Calculation of these special entrance requirements is based on a formula incorporating the regional unemployment rate and the number of weeks of benefits the person received on their last claim.

This calculation itself is somewhat involved, but a further complication is the exemption from the provision of regions with unemployment rates above 11.5 per cent. The fact that some areas are exempt while most are not, raises the issue of the consistency of the provision's underlying rationale, making its overall intent more difficult to understand.

In a second example, the higher 20-week entrance requirement for new labour market entrants and re-entrants adds another category of UI claimant. Identification of new entrants and re-entrants demands the definition of these groups and other program-related terms (such as prescribed weeks³) used in the definitions. These definitions and rules complicate the operation of the program. Identifying new entrants and re-entrants, for example, involves examining a claimant's work history over a two-year period. Under some circumstances this may be broadened to three years.

The 20-week requirement for special benefits (sickness, maternity and retirement) is also an extra entitlement condition. It brings to four the number of sets of separate but often overlapping provisions governing people's access to benefits. Complexity in UI entrance requirements is thus considerable. If it were reduced, the understanding and administration of the program could be greatly enhanced.

Complexity in the benefit structure also needs to be addressed. In particular, the existence of two phases based on labour force attachment (the initial and labour force extended phases) begs the question of whether they could be collapsed into one to streamline the benefit structure. Arguments for this change are supported by the relatively small proportion of claimants who use the labour force extended phase. In 1980, some 14 per cent of all claimants drew an average of 6.2 weeks of labour force extended benefits, at a total cost of \$286 million.

To achieve greater program simplicity, therefore, a desirable first set of changes would involve removal of some or all of the special entrance requirements for repeaters, new entrants, re-entrants, and special benefits. The labour force extended phase of benefits would also be eliminated. These changes would leave intact the basic regional differences in the program. A second series of changes, with even more fundamental implications for the present regionalized shape of the program could involve eliminating entrance requirements and the benefit phase based on regional unemployment rates. The benefit structure could be further streamlined by replacing the current three-phase structure with a single phase.

³ Prescribed weeks are weeks in which a person neither had insurable employment nor received UI benefits, but had an activity which indicated a labour force attachment. Such activities include receiving training approved by the CEIC, workers' compensation benefits, payments under sickness or disability wage-loss plans or being unemployed due to a labour dispute.

Effects of program design on work patterns

Program data suggest that the current basic entrance requirements, especially in the high unemployment areas, may be too low. For example, when the 10- to 14-week variable entrance requirement was introduced in 1978, 87 per cent of people affected in the Atlantic provinces found the two extra weeks needed to qualify and 40 per cent of those affected elsewhere found the up to six weeks they needed (Table 7-1). And when the entrance requirements for new entrants and re-entrants were raised to 20 weeks in 1979, there was an immediate, sharp rise in the number of claimants applying with exactly 20 insurable weeks, especially in the Atlantic provinces (Table 7-2). As an example, the number of claims established in New Brunswick with exactly 20 insurable weeks virtually doubled between 1978 and 1980. In the western provinces, where higher proportions of claimants already had 20 insurable weeks, the increases were smaller in the same period, ranging from eight per cent in Alberta to 24 per cent in Manitoba.

These additional work weeks, in both years, were secured in spite of continuing high unemployment and the expected difficulty in finding a job. In 1978, for

Table 7-1

Estimated number of initial claims

(Established in 1978 with additional weeks of employment due to the 10- to 14-week variable entrance requirement, by province)

	(000s)	As a percentage of the expected number of initial claims prevented from being established
Newfoundland	9.0	100.0
Prince Edward Island	1.9	67.9
Nova Scotia	5.6	71.8
New Brunswick	9.3	93.0
Sub Total	25.8	87.2
Québec	17.3	41.8
Ontario	29.4	44.1
Manitoba	4.6	52.9
Saskatchewan	2.0	34.5
Alberta	6.5	48.1
British Columbia	0.7	4.1
Sub Total	60.5	39.5
TOTAL	86.3	47.3

Source: Based on UI administrative data

Table 7-2

Number of claims established with 20 weeks

	1978	1980	Change (%)
Newfoundland	2,950	5,040	+70.8
Prince Edward Island	550	980	+78.2
Nova Scotia	2,760	4,090	+48.2
New Brunswick	2,350	4,620	+96.6
Sub Total	8,610	14,730	+71.1
Québec	17,080	25,540	+49.5
Ontario	15,140	18,820	+24.3
Manitoba	2,040	2,520	+23.5
Saskatchewan	1,510	1,660	+ 9.9
Alberta	2,630	2,830	+ 7.6
British Columbia	6,940	7,820	+12.7
Sub Total	45,340	59,190	+30.5
TOTAL	53,950	73,920	+37.0

Source: Based on UI administrative data

example, the national unemployment rate was 8.4 per cent — a post-war high — and in 1979 it remained significantly high at 7.5 per cent. Although it has been suggested that people relied on federal and provincial job creation programs to get the additional weeks to qualify for benefits, extensive evidence of this has not been found.

It must be emphasized that these findings do not indicate that the work ethic of workers in Canada varies among areas of the country. Rather, they suggest that economic circumstances in some areas and industries (particularly seasonal industries) are such that workers, acting in their own best interests, may be induced by UI program design into short work attachments because there are no built-in incentives to work longer.

This strongly suggests that, where necessary, work patterns in the Atlantic region, and to a lesser degree in other parts of the country, may be able to adjust to let people get needed increases in insurable weeks. These adjustments can come either from people finding additional employment to obtain the extra weeks or from employers changing their hiring patterns to allow people to work the additional weeks, or both. To attract employees, employers, especially seasonal ones, may have to provide work which lasts long enough for employees to meet increased UI entrance requirements. This may involve an extension of the employment season by employers, and a corresponding longer work attachment by employees.

This conclusion is reinforced by data on the extent to which claimants can get insurable employment while on claim — often for long enough to allow them to reinsure themselves, i.e. to develop the ability to establish a new claim immediately after the first one ends.

Fifty-five per cent of regular claimants in 1979 reported insurable employment while on claim. This proportion, significant at the national level, was particularly high in the Atlantic provinces, where 57 to 64 per cent of claimants reported such earnings (Figure 7-1). In the Prairies, by contrast, 39 to 45 per cent did so. A large number found enough work to establish a new claim as soon as their current one ended. Of these, about half were major attachment claimants with at least 20 insurable weeks. The longer benefit entitlements of residents in higher unemployment areas gave relatively high proportions of them enough time to reinsure themselves by taking advantage of available job opportunities, many of them seasonal and of short duration. In all eastern provinces, over 20 per cent of claimants who finished one claim were eligible to establish a new claim immediately, and over ten per cent actually did (Figure 7-2). Elsewhere, where entitlements are shorter, smaller

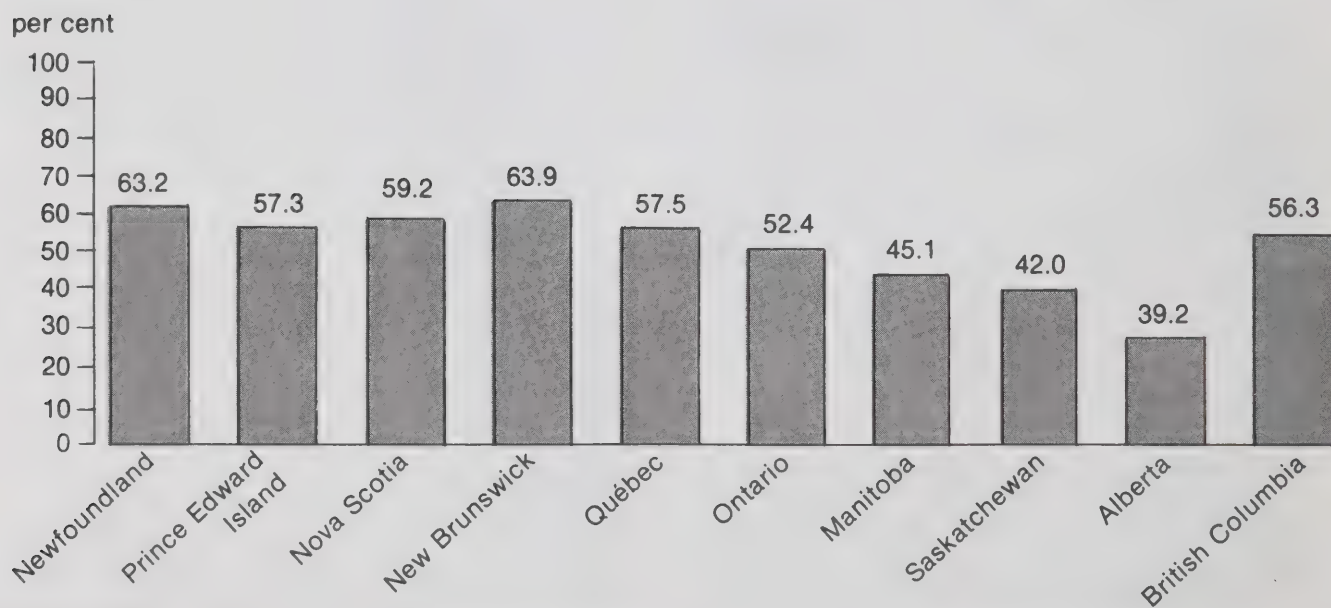
proportions immediately established a new claim. For example, in Alberta, less than three per cent did so.

The significant extent to which claimants across the country can find insurable employment while on claim and the ability of people in high unemployment provinces to reinsure themselves while on claim, despite the high unemployment, suggests that more work weeks are available to many who seek them. This indicates that if the basic entrance requirements were increased, many claimants would be able to meet them. Work that was done on claim would have to be done to qualify, leading some claimants to postpone their claims but probably not resulting in large numbers of claimants failing to qualify. The effect of the higher entrance requirement would be to strengthen work incentives, encouraging people to seek the extra work weeks needed.

Increased basic entrance requirements, depending on the extent of the increase, would have their primary impact on claimants whose work attachments are relatively short — the minor attachment claimants who establish claims with less than 20 insurable weeks. In 1979-80, these claimants formed a small proportion of

Figure 7-1

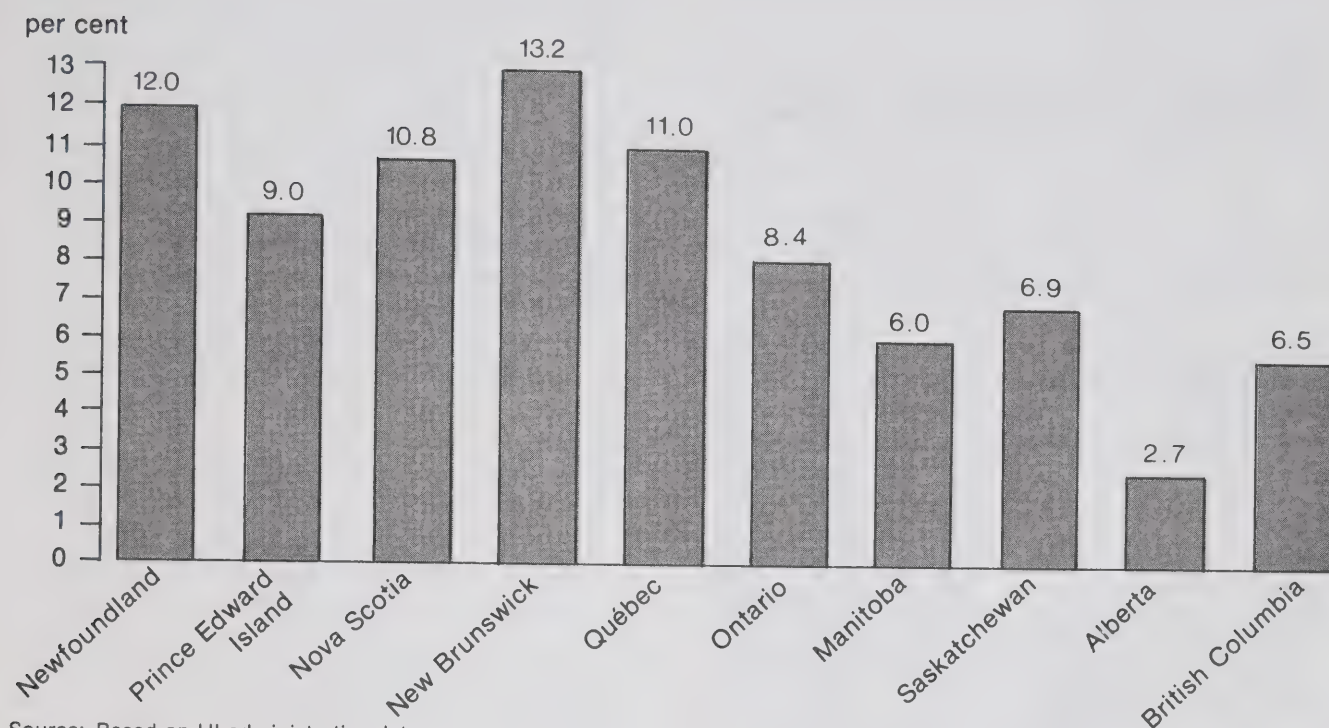
Proportion of claimants reporting insurable employment during claim, 1979, by province



Source: Based on UI administrative data

Figure 7-2

Proportion of claimants who used last week of claim and immediately established a new claim in 1979, by province



Source: Based on UI administrative data

the overall claim population (16 per cent). But they were a much more significant share of eastern provinces' claims (41 per cent in Newfoundland, 30 per cent in Prince Edward Island and 33 and 22 per cent in New Brunswick and Nova Scotia, respectively). So the impact of higher entrance requirements will be felt most strongly by the minor attachment claimants in these higher unemployment areas.

It must also be noted that even in high unemployment areas, significant numbers of new labour market entrants, re-entrants, or repeat claimants, are currently qualifying for benefits with the 16 to 20 insurable weeks they require under existing entry provisions. They are doing this, moreover, despite the labour market disadvantages they face through lack of work experience or unstable work attachment. While the special entrance requirements for these claimants raise program equity and complexity questions discussed later, their ability to secure the weeks they need strongly suggests that a higher basic entrance requirement for all claimants would be a feasible design change to encourage longer work attachments.

Concern over the level of the basic entrance requirements from the viewpoint of work incentives is compounded by the extremely long benefit entitlements in high unemployment provinces. Specifically, someone who works just long enough to qualify in parts of Atlantic Canada (ten weeks) is at once eligible for 42 weeks of benefits. This, along with the ten weeks' work, would be enough to maintain income for a full year. In an area where seasonal employment is very significant, such provisions can support seasonal employment/unemployment patterns with as little as ten weeks' work. For seasonal workers, there may be little inducement to work more than the ten-week minimum, since this guarantees income for the rest of the year⁴.

⁴ In some industries like fish-packing, the short period of seasonal employment involves overtime and high wages which decline after the peak fishing period. In these sectors, the incentive to keep working once the ten-week minimum has been reached may be further reduced since further work may mean lower average wages and smaller subsequent UI benefits.

These extremely long benefit entitlements are most pronounced among minor attachment claimants in the high unemployment areas, many of whom get four weeks of benefits for each week worked. Their long entitlements contribute to benefit durations which are the longest in the country (Table 7-3). This combination

The extent of such a shortening in entitlement, particularly if accompanied by a corresponding lengthening in entrance requirements, would nevertheless be very important. An extreme reduction in benefit entitlement alone would not be expected to bring about large labour market adjustments or reduce dependency on UI. This

Table 7-3

Average duration in weeks for which claimants received benefits by number of insurable weeks of work, 1978, by province

	Insurable weeks									
	10-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-52	Total
	Duration (weeks)									
Newfoundland	30.3	29.0	27.1	25.2	24.6	22.9	21.6	21.1	22.2	26.9
Prince Edward Island	28.5	25.7	25.9	23.9	22.0	21.8	21.7	22.5	20.2	25.0
Nova Scotia	24.4	24.2	24.6	23.1	21.4	20.0	19.4	21.6	18.9	22.3
New Brunswick	29.7	27.2	25.6	24.7	22.7	21.9	21.0	20.6	19.5	25.2
Québec	24.9	25.0	24.8	23.7	21.8	20.9	20.1	21.2	20.5	22.7
Ontario	13.1	16.4	17.0	17.3	16.6	15.6	15.1	15.4	14.9	15.6
Manitoba	11.7	16.3	17.4	18.1	16.5	16.1	15.8	15.5	15.1	15.8
Saskatchewan	7.1	13.3	15.6	15.7	14.7	13.4	13.2	14.2	13.7	13.8
Alberta	8.0	10.2	11.7	11.8	11.5	10.7	11.1	10.7	11.3	11.0
British Columbia	17.2	18.5	18.8	18.1	18.3	17.6	17.2	16.8	17.3	17.7
Canada	21.8	20.9	20.8	20.2	18.8	17.7	17.0	17.4	17.1	19.1

Source: Based on UI administrative data

of short work attachment and long benefit duration permits them to set up a cycle of dependency which is illustrated by the high rate of repeat claims. In 1979, for example, 72 per cent of Atlantic claimants were repeaters, compared to between 44 and 49 per cent elsewhere in Canada (Table 7-4).

These data suggest that a reduction in benefit entitlement, particularly for minor attachment claimants, would complement an increase in entrance requirements. This reduction would provide a stronger job search incentive to claimants and encourage a longer work attachment to qualify for benefits. Where an annual cycle of work-plus-UI had developed, this would tilt the claimant's yearly activities towards work and away from UI. In addition, a UI program featuring longer entrance requirements and shorter benefit entitlements could also provide an underlying enhancement to mobility. Some people, having more difficulty meeting local UI entrance requirements, might be more inclined to seek work elsewhere. The general balance between the stay or move decisions would be tilted by this change in provisions.

Table 7-4

Percentage incidence of claim repetition, by region

Region	Seasonal	Non-seasonal	Total	Non-repeating
1975				
Atlantic	25	34	58	42
Québec	21	31	52	48
Ontario	18	27	45	55
Prairie	21	28	49	51
Pacific	16	33	49	51
Canada	20	30	50	50
1979				
Atlantic	39	33	72	28
Québec	19	29	48	42
Ontario	21	26	47	53
Prairie	20	24	44	56
Pacific	19	30	49	51
Canada	26	28	54	46

Source: Based on UI administrative data

would require other more positive measures, including the possible use of UI funds to encourage the creation of stable employment in high unemployment areas, which is discussed in more detail in Chapter Eleven.

Too drastic a reduction in benefit entitlements could overtax some claimants' abilities to get a new job in the shorter entitlement period. It could also over-extend the chances of others getting enough work to qualify. There is little doubt, for example, that a reduction in benefit entitlement from 50 to 26 weeks would still be adequate for those claimants with the strongest work attachments. For those with weaker attachments, who may not be able to secure more than the minimum number of insurable weeks in a year, such an extreme benefit curtailment would clearly unduly reduce the income protection provided by UI. Without necessarily improving the program's labour market contribution, then, a large reduction in benefit entitlement might greatly weaken its ability to achieve its income protection objective.

A large reduction in benefit entitlement could also reduce the program's present built-in ability to respond automatically to long spells of unemployment arising from cyclical changes in economic activity. UI benefits are not expected to carry people through an entire downturn that could last several years. But they do permit some lengthening of peoples' unemployment in response to economic conditions. This avoids the need for ad hoc special extended benefits when unemployment is high, such as the US Federal Supplementary Benefits program which was in force during 1975 and extended by an Act of Congress until March 1977.

The current basic entrance requirements in Canada appear generous by international comparison. The Canadian variable entrance requirement of 10 to 14 weeks' work in the 52 weeks before the claim tends to be shorter than the effective entrance requirements in, for example, the United States. In the US, while entry provisions differ in individual states and are often related to previous earnings rather than weeks worked, the normal range is from 14 to 20 weeks. In such comparisons, it should be noted that the Canadian special entry provisions for new entrants, re-entrants and repeaters produce, for those claimant groups alone, more stringent entrance requirements similar to those of other countries.

Canadian benefit entitlement also tends to appear generous by comparison with others. In Canada, benefits are payable for up to 38 weeks based on the claimant's insured weeks in the qualifying period, plus up to 32 weeks based on the regional unemployment rate, to an overall maximum of 50 weeks. In the US, 43 jurisdictions provide a maximum duration of 26 weeks, with

nine providing 28 to 36 weeks. These short (by comparison to Canada) benefit durations are supplemented by extended benefits. These can be triggered either nationally or in particular states when high national or state unemployment rates persist for predetermined periods. They extend state benefits by up to 50 per cent, to a maximum of 13 weeks, during high unemployment periods. In Germany, claimants get one week of benefit for every two weeks of insurable employment in a three-year qualifying period, to a maximum of 52 weeks. To get the maximum 52 weeks, therefore, a claimant must have worked 104 weeks in the three-year qualifying period.

There is thus evidence that entrance requirements and benefit entitlements, particularly as they affect minor attachment claimants in the high unemployment provinces, could be more stringent with a positive impact on work attachment. Longer entrance requirements would encourage longer work attachments. Based on past experience, large numbers of claimants could be expected to get the additional work weeks to qualify. Shorter benefit duration would strengthen job search incentives and combine with the longer entrance requirement to tilt the activity of many claimants more towards work and away from unemployment. But care would have to be taken to avoid seriously over-extending claimants' capacities to get the additional work weeks, because this would reduce the program's income protection role. More stringent entrance requirements and shorter benefit entitlement in the Canadian program would not move it out of line with other countries, but might align the Canadian program somewhat more closely with them.

Equity — special claimant groups

Discussion of possible changes to UI entrance requirements and benefit durations also raises fundamental concerns about the equity or simply the fairness of present provisions. Fairness is paramount in assessing the UI program's treatment of special claimant groups such as new entrants, re-entrants, repeat claimants ("repeaters") and people on special benefits (sickness, maternity or retirement). These people face higher entrance requirements or entitlement conditions under the present program.

The higher entrance requirement for new entrants and re-entrants is intended to ensure that these new UI claimants have established a significant work attachment ("insurable interest", in insurance terms) before receiving benefits. This applies uniformly across the country, regardless of possible geographical differences in the claimant's ability to find enough work to qualify.

For new entrants and re-entrants, however, the higher entrance requirement is not justified on the grounds that

these claimants are abusing or misusing the program. That they should have to establish stronger grounds for an insurable interest than other workers to prove the strength of their labour force attachment can be seen as penalizing them for being new to the labour force. The extent of this penalizing, furthermore, is relatively great in those high unemployment areas where the variable entrance requirement is low. In these areas, high unemployment and the difficult labour market conditions this reflects, results in inconsistent treatment between regular labour force members and new entrants or re-entrants. Although it appears to justify making it easier for regular labour force members to qualify, it does not seem to justify a corresponding relaxation for new entrants or re-entrants. So in high unemployment regions a person who is a regular labour force member needs ten weeks' work to qualify, while individuals who are seeking to enter or re-enter the labour force, each need fully twice as much work.

Although higher entrance requirements for repeaters were introduced in 1979 to discourage annual patterns of claim repetition, they may also operate unfairly. Fifty per cent of all UI claimants are repeaters, and of these, half show fairly regular seasonal repeat patterns. So there are roughly as many irregular repeaters as regular seasonal repeaters. There is a popular belief that people who repeat their claims regularly are among the major misusers of UI⁵. Although for many repeaters, unemployment repetition may reflect a regular seasonal use of UI, for others the repetition shows no pattern and may simply demonstrate the claimant's inability to find a permanent job. It may therefore be unfair to group these people with those whose unemployment repetition follows an annual pattern. By requiring all repeaters to meet higher entrance requirements, the program may actually be penalizing a significant group whose repetition is essentially unplanned.

In addition, the current higher entrance requirement for repeaters penalizes only those repeaters with relatively short work attachments. Many repeaters, with work attachments in excess of twenty insurable weeks and high incomes, are unaffected by the present repeaters' provision despite regular patterns of repeat claims. Since the repeaters' provision appears uneven in its application, treating some repeaters differently from others, arguments for its removal on equity grounds are strengthened further.

The special benefits are designed to provide income protection in the case of sickness, maternity or retirement. The current 20-week requirement for entitlement

to these benefits creates a separate class of claimant, and appears to weaken the program's income protection role in these cases. It thus seems to impose on this class of claimant inequities which are even more pronounced in high unemployment areas where the regular entrance requirement is relatively low because of local labour market conditions. It may be justifiable on cost grounds, but it does not meet equity considerations.

In summary, for new entrants, re-entrants, repeaters, and people claiming special benefits, equity considerations suggest that the special entrance requirements for these groups be eliminated. Their entrance requirements should be the same as the basic entrance requirements for regular claimants to improve program fairness. Although labour market considerations argue strongly for more stringent entrance requirements to improve work attachment, the fairest way to achieve these is through a general increase, instead of continuing to single out certain groups for different treatment.

Removal of the special entrance requirements for these claimant categories would make their access to benefits under the current program much easier. Even if the basic entrance requirements were increased, as suggested earlier, many of these claimants might still find it easier to qualify under UI than they do now, depending on the extent of the increase. Removal of the special entrance requirements for these claimant groups would therefore amount to a substantial easing of entry into the program, unless offset by a higher basic entrance requirement for all claimants.

Regional differences in program design

Discussion in an earlier section has drawn attention to the considerable interprovincial variation in the amount of employment people can secure in a year. In general, those in the eastern provinces appear able to get fewer months of work in a year than residents of the western provinces. In 1977, for example, about 16 per cent of Newfoundlanders who worked failed to secure more than three months' work. The corresponding proportion in New Brunswick was 13 per cent and in Saskatchewan and Alberta it was only seven per cent.

The inability of people in the east, on average, to secure as much employment in a year as westerners can be used to support the argument that a truly equitable UI program will vary its entrance requirements to reflect these differences, requiring fewer work weeks in high unemployment regions than in low. This position argues, in short, for a continuation of the VER, albeit at a level higher than the present 10 to 14 weeks if entrance requirements are made more stringent at the same time. There are no objective labour market statistics, however, to indicate exactly what such a higher VER range might be.

⁵ Goldfarb Consultants, *An Evaluation of Canadians' Attitudes Towards Unemployment Insurance, Canada Employment Centres and Immigration*, Research Report for Employment and Immigration Canada, November 1980.

These concerns over a regionally variable or nationally uniform entrance requirement are paralleled in discussions of benefit entitlement. Concern over entitlement would be much less serious if all claimants could establish long and solid work attachments. But the program does face the problem of how benefits should respond to the circumstances of those people with poor work attachments, primarily the minor attachment group, whose ability to work long enough to qualify for adequate income protection is limited. In practice, the program has responded to these circumstances by tailoring extended benefits to recognize the unemployment situation of the region in which they live. In higher unemployment areas, longer duration extended benefits have been given. There is evidence, however, that existing regional variations in benefit entitlement among minor attachment claimants could be altered to better reflect regional labour market differences.

Specifically, there is considerable interprovincial variation in the extent to which minor attachment claimants use their benefit entitlement. Table 7-5 shows that in 1978, the proportion of minor attachment claimants using more than 90 per cent of their benefit entitlement was about 25 per cent in the Atlantic provinces. But it varied from 30 to 53 per cent in the Prairie provinces. In contrast, the proportion of major attachment claimants (those with 20 or more insurable weeks) who used virtually all their entitlement was fairly uniform provincially, averaging about nine per cent.

These utilization data show that, relative to their needs, the Atlantic provinces' entitlements for minor

attachment claimants were noticeably more generous than in the Prairie provinces. While Atlantic minor attachment claimants' labour market circumstances require longer benefit entitlements, the group's existing entitlements may actually have overstated these differences. For greater interprovincial equity in benefit entitlement, therefore, some compression in the interprovincial spread of minor attachment claimants' entitlements would appear necessary. It can nevertheless be argued that provincial differences do remain and should be recognized.

However, there is an alternative view. Greater equity in benefit entitlements could recognize the fact that in all provinces, regardless of unemployment rate, there are people whose real labour market difficulties justify relatively long duration benefits — often longer than those now available. Even in the low unemployment provinces of Saskatchewan and Alberta, there are individuals, such as native people in urban areas, whose labour market difficulties, despite the overall provincial picture, may be very serious. In response to these situations and to the longer benefit needs of people in high unemployment provinces, the UI program might emphasize its responsibility to pay benefits based on individual circumstances rather than on the region of residence. Such a benefit structure could make available nationally uniform extended benefits to all claimants in need of them. While clearly dependent on strict program control for its success, such provisions would focus on individual rather than regional equity — a significant departure from present practice.

The issue of whether or not program provisions should be regionally different, however, is not only an equity concern. The labour market effects of a regionalized program must also be considered — notably its potential impact on inter- and intra-provincial migration and the conceptual and practical issues involved in defining the regions to be used and measuring their unemployment differences. These are discussed in turn.

An earlier section explored the possible effects of UI on migration. Details of that analysis need not be repeated, but it will be recalled that the analysis concluded that UI could have both positive and negative effects on mobility. It was also concluded that the UI entrance requirements and benefit durations would have a more neutral effect on mobility if regionally different provisions were removed. With them would go any inherent tendency for the provisions by themselves to subsidize people to remain in or return to areas of high unemployment. In short, this would involve removing the VER and the regional extended benefits and replacing them with nationally uniform provisions. This

Table 7-5

Proportion of claimants utilizing virtually all their benefit entitlement by province, 1978

	Minor attachment claimants	Major attachment claimants	Total
Newfoundland	26.4	11.8	18.9
Prince Edward Island	11.6	6.3	11.6
Nova Scotia	25.1	10.0	16.1
New Brunswick	24.6	8.4	16.7
Québec	24.9	9.1	14.0
Ontario	34.8	7.9	15.3
Manitoba	44.0	10.9	18.8
Saskatchewan	52.6	12.8	20.9
Alberta	30.3	7.2	11.7
British Columbia	22.5	8.9	13.4
Canada	28.6	8.8	14.9

Source: Based on UI administrative data

change, of course, would contradict the regional equity concerns of the present program and heighten the difficulty of addressing the issue of the program's regionalization.

Finally, continuing a regionally different program would require that the definition of regional boundaries and the measurement of differences in unemployment severity be done in a flexible, reliable way. Continued use of UI economic regions as the basis for the program's regional features encounters serious problems of definition. The regions do not necessarily depict areas of labour market activity or job search. These are difficult to define in practical, functional terms. Regardless of their relatively small size, furthermore, there can always be pressures to subdivide them even further into more homogeneous areas. The small UI regions also pose measurement problems because most statistics available at this level are not sufficiently reliable. This may cause random variations which in turn translate into variations in program criteria. For example, in January 1980, the entrance requirement in the UI economic region of Madawaska, N.B. while recorded as 12 weeks, stood a 50 per cent chance of actually being 11 weeks. Furthermore, in the 12 months between July 1979 and July 1980, the entrance requirement in the region of Digby, N.S. changed eight times.

Set against these drawbacks, however, is the capacity of statistics for geographically small UI regions to be more sensitive than more aggregated measures to specific local labour market situations. This gives UI the ability to react to local conditions which may assist in some adjustment situations. The automatic change in entitlement conditions caused by the recent deterioration in the unemployment situation in Windsor, Ontario is a case in point. The regional unemployment rate rose from 7.3 per cent in September 1979 to 15.3 per cent in February 1980, triggering longer benefit entitlements and for several months exempting the Windsor area from the repeater provision.

The extreme alternative to the continued use of the UI economic regions would be complete removal of regional differences from the program. This would end the measurement problems in the small UI economic regions and be completely mobility-neutral, as discussed. But complete removal of UI economic regions and the resultant nationally uniform program design, would not give the program great sensitivity to local labour market conditions. It would also affect the equity with which the program reflects the circumstances of high unemployment areas. Nationally uniform provisions, uninfluenced by unemployment rates, would also reduce the program's sensitivity to changes in overall economic activity. Increasing overall unemployment rates would

thus not trigger reduced entrance requirements or benefit extensions when deteriorating employment conditions made them increasingly necessary. So the overall sensitivity of a national program would suffer by comparison to one using UI economic regions unless specific design features counteracted this. Such features could include the ability to designate communities for special benefits or setting unemployment rate thresholds to trigger special provisions.

A middle ground could be the adoption of provincial regions. These would eliminate for the most part the measurement and reliability difficulties associated with the present UI economic regions. At the same time, they would keep some of the mobility-neutral features — at least for intra-provincial migration — of the nationally uniform program. Although more sensitive to fluctuations in overall business conditions than the nationally uniform program, a program based on provincial regions would not be as sensitive to local economic conditions as one based on the present economic regions.

This issue of the regionalization of the program also includes the question of which measure of local unemployment circumstances is the most useful indicator for UI purposes. A number of measures were examined in the review, including several indicators of employment and unemployment duration. The Task Force also considered the arguments for and against the use of actual or seasonally adjusted unemployment rates. In spite of the difficulties with its use, the Task Force feels that the seasonally adjusted unemployment rate continues to give the most useful combination of sensitivity and timeliness as a labour market indicator. This is particularly true at the geographical level of the UI economic region, for which most other measures are not available.

The difficulty in dealing with the issue of regional differences in program design can be shown by public reaction to the issue. When a recent public opinion survey⁶ asked if UI entrance requirements and benefit structures should be regionally differentiated, respondents' answers were split evenly. The question of whether to continue with a regionally different program design raises important issues of equity and labour market effects. It also raises conceptual and practical problems implicit in the definition and measurement of regional unemployment differences. So the question of regionalization involves important tradeoffs among these program dimensions — tradeoffs best illustrated by comparisons between options incorporating regionalized and non-regionalized features.

⁶ Goldfarb, *ibid.*

Summary and possible design

Earlier discussions have shown how the labour market of the 1980s will be marked both by employment dislocations and by the need for significant labour market adjustments. It has also been pointed out that in this environment, UI's ability to contribute to labour market objectives must be strengthened.

The need to achieve this strengthening of the program's labour market role, subject to the constraints of the other program dimensions, is the main objective of the changes in entrance requirements and benefit entitlement provisions previously discussed. Desirable program design changes have been identified which contribute to this objective in specific ways.

First, more stringent basic entrance requirements and shorter benefit durations, particularly for minor attachment claimants in high unemployment areas, would encourage longer work attachments and stronger job search incentives. For many people, this would tilt their patterns of work-plus-UI more towards work and away from benefits. It is also expected to contribute to a shift in employers' hiring patterns, lengthening the period for which many employers provide work. This would be a fundamental program design change which would strengthen the program's capacity to contribute to labour market adjustment.

Second, removal of the higher entrance requirements for special claimant groups such as new entrants, re-entrants, repeaters and those on maternity, sickness or retirement benefits would make a major contribution to both the equity and the simplicity of program design. A single entrance requirement would eliminate the classes of claimants who get different treatment under UI. It would also remove many of the rules and definitions that identify these classes and regulate their treatment.

Third, streamlining the current three-phase benefit structure to two or even one phase would contribute further to program simplicity.

Discussions have also focussed on a fourth concern — the regionalization of the program. The three directions for program change listed can be accommodated either by a nationally uniform or a regionally differentiated benefit structure. However, the question of regionally different or nationally uniform entrance requirements and benefit duration involves a weighing of the regional equity inherent in a differentiated program against the potential mobility-enhancing effects and the simplicity of a nationally uniform program.

There are many persuasive arguments for the adoption of a program design that is nationally uniform in its entrance requirements and benefit structure. Such a program design would not be new but would amount to

a return to the design that existed before 1971. Nationally uniform provisions would be mobility-neutral in that they would remove any potential mobility-inhibiting features built into program design. They would also be easy to understand and administer, since common entry provisions would apply across the country and entitlement to benefits would depend on weeks worked, with no geographical variance. They would remove the difficult problems associated with use of UI economic regions, and they would effectively extend benefits to people in response to their personal unemployment circumstances rather than to the general conditions of their region of residence, which might be very different.

However, the nationally uniform provision would suffer a major disadvantage if, as has been suggested, the special higher entrance requirements for new entrants, re-entrants and repeaters were to be removed. It has been noted that this removal would ease program entry for many, adding greatly to program costs. To prevent such cost escalation, and in keeping with other broader cost considerations, an increased basic entrance requirement would be needed. But calculations show that to meet all these cost objectives, a nationally uniform entrance requirement of about 17 weeks would be required. In high unemployment areas, where current entrance requirements may be 10 weeks, such a drastic increase could cause serious disruption. The burden of the increase would fall most heavily on these high unemployment areas, which would experience a rise in the basic entrance requirement from 10 insurable weeks to about 17 while low unemployment areas would face a smaller increase from the current 14 weeks. While such a higher uniform entrance requirement would meet cost and program simplicity concerns, it would achieve these at great expense in terms of regional equity.

In the judgement of the Task Force, the nationally uniform entrance requirements and benefit structure, while attractive on a number of grounds, would not be acceptable in terms of regional fairness when combined with the removal of the special entry provisions for new entrants, re-entrants and repeaters. The increase in the uniform entrance requirement needed to meet cost constraints would be untenable in high unemployment areas, and the lowering of entrance requirements for many in low unemployment areas would be equally unjustified. On these grounds, the Task Force feels that a higher basic regionally differentiated entrance requirement would achieve a cost offset but retain regional equity. While a number of appropriate entrance requirements options, each with different cost implications, may be envisaged, the Task Force feels that one varying regionally between 15 and 20 weeks would be among the most appropriate on labour market, regional equity and cost grounds.

Appropriate to this 15-20 week variable entrance requirement would be a regionally differentiated benefit structure, designed to achieve the other objectives of program redesign already discussed. To show how such regionally differentiated features would actually appear, an illustrative entrance requirement/benefit structure design is presented and discussed.

This design includes

- a 15- to 20-week variable entrance requirement (VER) for regular and special benefits with no specific provisions for repeaters, new entrants or re-entrants, as in the following schedule.
- | Regional unemployment rate | Minimum entrance requirement |
|----------------------------|------------------------------|
| Up to 6.0% | 20 weeks |
| 6.1% to 7.0% | 19 weeks |
| 7.1% to 8.0% | 18 weeks |
| 8.1% to 9.0% | 17 weeks |
| 9.1% to 10.0% | 16 weeks |
| 10.1% and over | 15 weeks |
- a regionally differentiated benefit structure with one week of entitlement for each insurable week up to 35 weeks, plus four additional weeks for each percentage point the regional unemployment rate is in excess of 6.0 per cent, up to an additional 20 weeks of benefits in a 52-week benefit period, as in the schedule below.
 - continuation of the 52-week qualifying period, two-week waiting period and 52-week benefit period of the present program.

Regionalized single-phase benefit structure
Weeks of benefit

Insurable weeks	Regional unemployment rate					
	6.0% and under	6.1% to 7.0%	7.1% to 8.0%	8.1% to 9.0%	9.1% to 10.0%	10.1% and over
15						35
16					32	36
17				29	33	37
18			26	30	34	38
19		23	27	31	35	39
20	20	24	28	32	36	40
35 or more	35	39	43	47	50	50

In the opinion of the Task Force, this design has the following advantages.

1. It would *reinforce work incentives and lengthen employment attachments*. All regions would encounter an increased entrance requirement which would encourage people to work longer. It would also encourage

many employers to change their employment patterns, lengthening the period for which they hire workers.

2. It would *tilt people's labour force patterns toward work, away from UI*. Shorter benefit entitlements would increase incentives for job search. For people who rely on annual patterns of work-plus-UI, these shorter entitlements would combine with the increased entrance requirements to tilt people's patterns toward work and away from benefits.

3. It *might remove some mobility disincentives* by lengthening entrance requirements and shortening benefit entitlements, thereby reducing the extensiveness of the program. Some people, facing greater difficulty in meeting these more stringent provisions, might be more inclined to move to seek employment.

4. It *would maintain adequate income protection*. In high unemployment areas even people with the minimum entrance requirement would maintain an annual cash flow based on work plus UI benefits.

5. It would *recognize the regional variation in people's ability to find and keep work*. By varying entrance requirements and benefit entitlements with regional unemployment differences, the design would explicitly recognize that local labour market conditions can influence people's capacity to qualify for benefits and the amount of benefits they need. It would therefore seek to incorporate regional equity in its provisions and to avoid penalizing residents of high unemployment regions.

6. It would be *easier to understand and administer than present provisions*, because it would replace four entrance requirement provisions with one, and collapse the current three benefit structure phases into one. In

addition, as soon as claimants qualified for benefits, they would learn what their benefit entitlement would be — a situation which is not now the case.

7. Its variable entrance requirement *would not result in easier program entry for members of special groups in the same way as a uniform entrance requirement*.

Retention of a regionalized entrance requirement would mean that if the higher entrance requirements for some special claimant groups (for example, new entrants) were removed, most people in these groups, particularly in low unemployment areas, would not face substantially easier entrance requirements than now. The overall greater stringency of the entrance requirement changes would be maintained.

The Task Force feels that among the many design options and combinations of options it has examined in the course of the review, the structure just described warrants particular consideration. In its judgement, this structure is among those which most closely meet the income protection and labour market objectives of the program, consistent with the principles of administrative simplicity, individual and regional equity, and expenditure restraint.

Other benefit structure features

The preceding section shows the importance of entrance requirements and duration of benefits in determining the balance to be achieved between UI's labour market and income protection objectives.

The level of entrance requirements and the duration of benefits, however, do not alone determine the shape of the UI program in Canada. Other major features of the benefit structure also directly influence the program's impact on work incentives, income protection and income redistribution. Discussion of the entrance requirements and benefit structure is therefore incomplete until these dimensions have been discussed and, if necessary, changes identified to increase their appropriateness to the labour market adjustment needs of the 1980s. These features include

- the basis of benefit payment,
- the rate of benefit,
- the maximum weekly insurable earnings,
- working while on claim.

The basis of benefit payment

Unemployment Insurance operates as a social insurance program. Benefits are paid as of right to eligible claimants. They are linked to workers' contributions to the program and not to other characteristics of their circumstances such as family status, dependents or an assessment of need. This distinguishes UI from other social assistance programs which, in determining a person's eligibility, take into account these other dimensions of the family or economic circumstances.

An earlier section discussed the increase in the number of multi-earner families in recent decades and the built-in income protection these provide when one family member becomes unemployed. This has changed

the relationship between unemployment and family hardship. A person's unemployment does not necessarily produce financial hardship for that person if the other family wage earners are still working and their incomes can be diverted temporarily to cover the family's basic expenses.

On this basis, it has been argued that it is not the person's income which should be insured under UI, since loss of that income need not bring extreme financial difficulty. Rather, it is argued that UI should insure the family's income — the true determinant of family hardship. To the extent that a family's income falls below a critical level, through the unemployment of one or more family members, this position argues that UI benefits should depend on how far the income has fallen below this critical level.

Proponents of family income-based UI systems argue not only that such systems sufficiently offset family economic hardship but that overall UI costs are reduced in the process. One study⁷ simulated the effects of such a system and found that UI costs were reduced by 10 per cent. These cost savings, furthermore, would come largely via benefit reductions on wives in middle- and higher-income families, strengthening the program's redistributive effects. The system's proponents view UI payments to working wives as an indirect subsidy of their non-wage household activities as well as their job search, perversely encouraging them to stay at home. So reductions of UI payments are seen as positively strengthening their incentive to return to work.⁸

The Task Force has considered the arguments for a family-based unemployment insurance system. It does not recommend the adoption of such a system, for conceptual and practical reasons.

First, the system would depart fundamentally from the social insurance aspect of the present individual-based system by introducing a determination of need into the benefit calculation. The fundamental character of UI would be altered into one closer to social assistance programs where the link between contributions and benefits would be severely weakened for many people.

Second, the program's basis of benefit payment would appear to attach less value to the work of lower income family members (usually women and young people) than to the work of the family's highest income earner. In the 1980s, when 70 per cent of the labour force increase is expected to come from women, this apparent unequal recognition of the value of women's contribu-

⁷ J.E. Cloutier, and A.M.M. Smith, *The Evaluation of an Alternative Unemployment Insurance Plan*, Economic Council of Canada Discussion Paper 159, February 1980.

⁸ Cloutier and Smith, *ibid.*, pp. 4-5 present this argument.

tion would contradict women's achievement of greater labour force equality with men. The system would appear discriminatory and could in effect be seen as a tax on the family unit.

Finally, although it would probably achieve cost reductions, the family-based system would likely add to the complexity of program administration. The establishment and verification of family status and family income and particularly the constant monitoring of changes in these, would pose serious administrative problems and be open to abuse. Even the definition of the family unit would raise significant difficulty.⁹ Finally, receipt of different benefits would probably lead, on equity grounds, to demands for different premium contributions. This further complication would have implications for the social insurance nature of the program, in particular the pooling of the cost of unemployment.

In summary, cost savings, improved redistributive effects and possibly increased work incentives to wives in middle- and higher-income groups — positive features of a family-based UI plan — would not, in the assessment of the Task Force, offset the fundamental change to the program's social insurance basis, the discriminatory effects on women, and the administrative difficulties involved in such a plan.

The benefit rate

Under the current program, the rate of weekly benefit payable equals 60 per cent of claimants' average weekly insurable earnings during the last 20 weeks of their qualifying period. For claimants with fewer than 20 weeks' insurable employment, the rate of benefit is 60 per cent of their average insurable earnings during all their weeks of insurable employment.

This benefit rate has been a major focal point for debate on the balance to be achieved between the program's labour market and income protection objectives. On the one hand, it is argued that with a lower benefit rate, the program will be less successful in achieving its income protection objective, since the proportion of the claimant's income replaced by UI (the income replacement ratio) will be lower. On the other hand, it is argued that in a multi-earner family, a given benefit rate may combine with the earnings of other working family members to create a relatively high replacement of family income.

It is further argued that in multi-earner families in particular, too high a benefit rate may reduce the incentive to seek re-employment, retarding labour market

adjustments. At the other extreme there is obviously a point at which too low a benefit rate contributes to economic hardship, especially in single-income households.

There has been little recent public concern about the benefit rate. Even after it was reduced in 1979 from 66⅔ per cent to 60 per cent, there was little public reaction.

International comparisons are difficult because of the great variation in provisions and the different role of UI in each country's social security system. But a review of other countries suggests that the Canadian benefit rate is not greatly out of line. In the United States, for example, benefit rates generally range from 50 to 66⅔ per cent of the claimant's insurable earnings up to state average weekly wage levels. In addition, some 13 states provide additional benefits for dependents. It should be recalled that the US has only a limited Family Allowance program, payable only to indigent families with dependent children and that in the US, unemployment compensation benefits for the most part are not taxable.

In spite of the relative absence of public concern now over the 60 per cent benefit rate and its general comparability to that of, for example, the United States, questions have arisen over whether Canada might adopt a benefit rate based on the dependency status of the claimant. This would see claimants with dependents receiving a higher benefit rate (66⅔ per cent has been suggested) than claimants without dependents (50 per cent has been suggested for this group). This difference would reflect the presumed greater need of claimants with dependents (i.e. the relatively large proportion of income, on average, which would be spent on the essentials of food, clothing and shelter).

Adoption of a dependency benefit rate would actually mean reintroducing this design feature into the UI program. An earlier dependency arrangement¹⁰ was eliminated from the program in 1976. The grounds were that other steps taken by the federal government to increase support for people with dependents were a more effective response to the needs of these people and eliminated the need for the special benefit rate. These other measures included increases in and indexing of family allowances and the indexing of income tax deductions.

Suggestions to reintroduce the dependency benefit rate have pointed out that, relative to their premium contributions, claimants without dependents withdraw

⁹ Cloutier and Smith, *ibid.*, for example, simulate three different definitions of "UI units".

¹⁰ A special benefit rate of 75 per cent was paid to all claimants with dependents in the extended benefit period and to those earning equal to or less than one-third of maximum insurable earnings in the initial and re-established initial benefit periods in effect at that time.

more in benefits than claimants with dependents. This has been taken to indicate that claimants with no dependents may have fewer financial pressures to return to work and may therefore, on average, remain on claim for longer than those with the responsibilities of dependents. Expressed in program terms, those without dependents have higher cost ratios than those with dependents, showing the former's higher insurance risk. A different benefit rate, it is argued, would reduce this difference by increasing benefits paid to people with dependents and decreasing benefits to those without dependents. In the process, it is argued, the reduced benefit rate for people without dependents would strengthen their incentive to take work.

Examination of the arguments for the dependency rate, however, disclosed a number of major difficulties. In the judgement of the Task Force, many of these arguments were not conclusive and could be offset by others.

In the first place, cost ratio analysis highlights the crudeness of dependency status as a basis for differing benefit rates. Specifically, in 1977, the cost ratio of claimants without dependents was 34 per cent above the average, while that of claimants with dependents was 23 per cent below the average. However, these average cost ratios of dependency status groups as a whole can disguise the existence of subgroups whose cost ratios are marked exceptions to the general rule. For example, wives with children in multi-earner families have extremely high cost ratios despite the low ratios of others with dependents. Conversely, single people have low cost ratios, in contrast to the generally above-average ratios of those without dependents. These important exceptions indicate that cost ratios reflect a variety of forces, including the impact of UI on work patterns, employment stability and other income sources and do not simply indicate the differing impacts of UI benefits on the work incentives of different claimant groups. Introduction of different benefit rates for those with and without dependents could therefore introduce considerable inequities in the treatment of individual subgroups whose behaviour differs from the group average.

Moreover, dependency status is a crude and arbitrary way to vary benefit rates to recognize family needs. No distinctions are drawn, for example, between the number of dependents or the level of family income. These further refinements would improve the accuracy with which the benefit rate reflects family situations, but they would also add greatly to administrative complexity.

A further concern over the dependency benefit rate would be its effect on work incentives. It is not clear that a reduction in the benefit rate for those without

dependents — from the present 60 per cent to, for example, 50 per cent — would have a uniform effect of strengthening individual claimants' work incentives. This might occur among single workers, but its effects would likely be negligible among members of multi-income families with no dependents. In either case, it would do little directly to lengthen the work attachment of people with short-term job attachments, particularly if these claimants have dependents.

The dependency benefit rate would suffer several of the same major drawbacks that the family-based benefit payment plan described earlier would encounter. First, by introducing a varied benefit rate to reflect the greater need of some claimants, the program would depart from the social insurance principles under which benefits are now paid. Indeed, it was considerations such as these which led to the elimination of the previous dependency benefit rate in 1976.

Second, the dependency benefit rate would be extremely discriminatory towards women, unless provisions were made to allow either spouse to claim dependents for UI. Before 1976, when the earlier dependency benefit rate was in force and only one spouse was permitted to claim dependents, females claiming dependents made up only five per cent of all women's claims. In contrast, 44 per cent of all male claimants reported dependents. Were a similar situation to exist under a new dependency benefit rate, then only about five per cent of women would receive the higher benefit rate which recognized their dependents, while the 95 per cent without dependents would receive the lower rate. For men, on the other hand, 44 per cent would receive the higher rate and 56 per cent the lower rate. So the dependency benefit rate would reduce women's benefits relative to men's at a time when women's contribution to the work force is expected to continue increasing.

Third, the development and implementation of a dependency benefit rate would encounter serious administrative difficulties. The establishment, verification, and monitoring of a claimant's dependency status would add considerably to the program's administration and control requirements. Demands for different premiums to match different benefits, if accepted, would add further to program complexity and error. It would mean that employers would have to establish and monitor the dependency status of each employee to determine the proper premium rate. These problems would be accentuated by provisions to allow either spouse to claim dependents for UI. The likelihood of fundamental inconsistencies between UI and income tax definitions could also pose significant problems, as could specific issues such as the transferability of dependents from one spouse to the other and the monitoring of such transfers.

Finally, it should be restated that when UI is seen in its social security context, the dependency benefit rate appears somewhat superfluous in view of the large number of income supplementation measures favouring those with dependents. These measures, moreover, are more effective in this regard than the dependency benefit rate since they take into account the number of dependents and family income. Included in these measures are the tripling of family allowance payments in 1976, their indexation, the indexing of income tax deductions and, more recently, the introduction of the refundable child tax credit on a family-income-tested basis. Efforts to increase assistance to people with dependents would appear more reasonably placed on enriching these measures rather than on introducing a UI benefit rate based on the claimant's dependency status.

Based on these considerations, the Task Force has concluded that on balance, there is neither a strong case for departure from the present benefit rate of 60 per cent nor for introduction of a dependency rate of benefit.

Maximum weekly insurable earnings

For many claimants, the portion of their earnings replaced by UI benefits is influenced not only by the benefit rate but also by maximum weekly insurable earnings. Maximum insurable earnings set an upper limit on the amount of weekly earnings protected by UI. Claimants earning at or below the maximum (\$315 per week in 1981) receive the full income replacement rate of 60 per cent, but the incomes of those earning above the maximum are protected only up to the maximum.

The effect is to provide higher-earnings claimants with a smaller degree of protection relative to their earnings on the grounds that they have a greater ability to support themselves while unemployed.

When introduced in 1972, maximum weekly insurable earnings were approximately equal to the average weekly earnings in Canada. Since then, the maximum has been increased based on an eight-year moving average of wages and salaries designed to provide a gradual increase in the maximum, eliminating any abrupt changes. This eight-year indexation, however, has tended to under-reflect recent rapid wage changes, allowing the maximum to fall behind the overall increase in average wages and salaries. In 1981, it is expected that the maximum will equal about 90 per cent of average weekly wages and salaries, compared to about 100 per cent in 1972 (Table 7-6). This amounts to an erosion of the degree of income protection provided by UI. At the same time, the proportion of contributors with weekly earnings above the maximum has risen from about 35 per cent in 1972 to an estimated 55 per cent in 1979. Over the period, this means that more and more workers are potentially receiving less income protection.

It is proposed that the base from which the maximum is derived be updated to equal the most current annual average weekly earnings in Canada. It is also proposed that the present eight-year moving average of wages and salaries be replaced with a shorter moving average of perhaps three years. This would be more responsive to situations of rapidly rising wages. These two proposals would greatly strengthen the income protection provided by UI. Updating the base would restore the practice of

Table 7-6

Comparison of maximum weekly insurable earnings to average weekly earnings

Year	Maximum Weekly Insurable Earnings	Average Weekly Earnings in Canada	Proportion of Average Weekly Earnings Covered
1972	\$150	\$149.22	100.5%
1973	\$160	\$160.46	99.7%
1974	\$170	\$178.09	95.5%
1975	\$185	\$203.34	91.0%
1976	\$200	\$228.03	87.7%
1977	\$220	\$249.95	88.0%
1978	\$240	\$265.37	90.4%
1979	\$265	\$288.25	91.9%
1980	\$290	\$316.79 (forecast)	91.5%
1981	\$315	\$348.47 (forecast)	90.4%

Source: Based on UI administrative data and Statistics Canada, *Employment, Earnings and Hours*.

having only those people with above-average earnings bear an increasing share of the costs of their own unemployment. Changing both the base and the moving average would help maintain the real value of the income protection itself. Since there is a higher proportion of contributors than of claimants with earnings above the current maximum, raising the maximum would actually increase premium revenues by more than benefit payments. This would lead to a net increase in revenues at the same premium rate, reinforcing the redistributive effects of the program.

Working while on claim

Claimants are now permitted to earn an amount equal to 25 per cent of their weekly benefits. Above this, their benefits are reduced by the additional amount they earn. This amounts to a 100 per cent deduction on all on-claim employment earnings above 25 per cent of benefits. Discussions have revolved around the appropriateness of this 25 per cent allowance. They have focussed on the issue of how UI can best encourage claimants to do some work while on claim without interfering with their incentives to seek and take full time work in order to get off claim completely.

On the one hand, it has been argued that the allowance should not be too high, since claimants may be encouraged to work only enough to make their maximum allowable earnings. When combined with their benefits, these may provide them with a sufficient long term income and a high degree of leisure. In addition, too high an allowance and a large amount of work while on claim will reduce the time available for job search and so may inhibit and lengthen the job search process. On the other hand, it is argued that part-time (i.e. part-week) employment should be encouraged since it constitutes a productive use of the claimant's time.

The Task Force has not found any evidence that the present allowable earnings provisions encourage part-time work at the expense of full-time work. Neither has it found that higher allowable earnings will lead more claimants to work just enough to claim both their full earnings and their full benefits. For example, before 1971, claimants could keep about 50 per cent of their earnings while on claim. When the present provision was introduced in 1971 however, the proportion of claimants reporting earnings remained unchanged at 40 to 50 per cent. There is also no evidence that claimants work exactly enough to claim full earnings and full benefits. In 1977, 85 per cent of those working while on claim earned in excess of 25 per cent of their benefits. Finally, the fact that people who accept part-time work while on claim can use these weeks of work as a basis for establishing another claim is a strong incentive for them

to work while on claim. There is also the possibility that a part-time job begun while on claim may turn into a full-time job — a further work incentive.

It has been suggested that the allowable earnings provision be extended to allow UI to be used to top up the wages of people who return to full time work at lower wages than they earned before. This is not endorsed by the Task Force, since it would cast UI directly into the position of an income supplementation program, raising fundamental questions about the program's role in the overall social security system. The arrangement, when fully implemented would also be complex to administer and would raise significant questions of equity of treatment between high- and low-income earners.

Work incentives are also enhanced by the extent to which benefits may be paid any time in the 52-week benefit period. Under present arrangements, initial benefits may be paid any time in the benefit period, although the same availability does not apply to extended benefits. These arrangements ensure that claimants who secure weeks of work in their initial phase of benefits will not lose these weeks of benefits but may still get them later. The impact of this provision will vary geographically, as do benefit entitlements. Generally, the provision means that the claimant's incentive to take a short-term job while in this benefit phase is not dampened by an automatic corresponding reduction in overall benefits. This availability of initial benefits therefore reinforces people's incentive to work while on claim. It is also consistent with current provisions regarding allowable earnings while on claim.

It is therefore expected that work incentives could be further strengthened if claimants could be paid any of their benefits (rather than just the initial phase, as at present) at any time in the 52-week benefit period. This more flexible availability of benefits should be a feature of the benefit structure and is fully consistent with the single-phase benefit structure described earlier.

In summary, sufficient incentives to work while on claim exist because the present allowable earnings arrangements do not appear either to interfere with incentives to take work while on claim or to encourage part-time work at the expense of full-time. Since provincial guidelines about work while on social assistance are also generally consistent with UI allowable earnings provisions, changes to the latter would have administrative and cost implications for provincial governments. In the view of the Task Force, therefore, existing allowable earnings arrangements should not be changed. The Task Force feels, however, that work incentives could be strengthened if current provisions were changed to permit payment of benefits at any time in the 52-week benefit period.

Chapter Eight

Voluntary Quits and Other Disqualification Provisions

The UI Act includes provisions to disqualify claimants for employment related misdemeanours. Quitting a job without just cause¹ is by far the largest category of misdemeanour in UI. In 1980, for example, some 232,000 claimants were disqualified for up to six weeks for this reason. These people formed about 10 per cent of initial claims and 80 per cent of all disqualifications. A distant second in order of importance are disqualifications for being fired for misconduct. In 1980, these numbered 35,000 and were about 12 per cent of all disqualifications. Disqualification for other reasons² totalled 20,000 in 1980 — eight per cent of the total. Because voluntary quitting is by far the major cause of disqualification, discussions in this section have focussed on this category.

Quitting a job without just cause is in itself an expression of a disincentive or disinclination to work. This perception is reinforced by the extent to which voluntary quitting without just cause is linked to other forms of misuse of the UI program. Between 1975 and 1977, for example, about 25 per cent of the voluntary quitters went on to exhaust their claim, compared to about 20 per cent of other claimants. Their rate of disqualification and/or disqualification for job refusal, non-availability and inadequate job search while on claim is twice as high as that of other claimants (22 per cent versus 11 per cent, respectively, in 1979) (Table 8-1). Part of this difference, however, is probably due to the fact that the behaviour of voluntary quitters on claim tends to be monitored more closely than others.

¹ Just cause is not defined by legislation or regulation, but has emerged over the years through the appeals jurisprudence relating to it. People who quit their job because the employer does not live up to the terms of the contract or to accompany their spouses who are relocating to take a job, for example, would be considered to have just cause for quitting and would not be disqualified.

² These include refusing to accept a suitable job, neglecting to be available for an opportunity for suitable employment and failing to attend a training course, among others. It should be noted that other misdemeanours under the UI Act, such as failure to prove availability for or capability of working, are treated differently. They are referred to as disentanglements and are not considered in this discussion.

Table 8-1

Comparison of Disqualification/Disentitlement rates* for voluntary quitters and other regular claimants

	1974	1975	1976	1977	1978	1979
Voluntary quitters	32.9	31.0	29.8	22.9	21.7	22.0
Other claimants	17.7	16.5	17.0	12.9	11.9	10.9

Source: Based on UI administrative data

*Does not include disqualifications and disentitlements imposed for voluntary quitting.

The data do suggest, though, that as a group voluntary quitters appear more likely to maximize their time on claim and less likely to carry out their obligations to seek and take work. The data therefore strongly support the penalties imposed by the UI program for voluntary quitting without just cause. In labour market terms, these penalties seek to strengthen work incentives by reducing the extent of voluntary quitting without just cause.

The strength of the penalty also seems to influence the extent of voluntary quitting. After the 1971 legislation, when the maximum period of disqualification for voluntary quitting without just cause was reduced from six to three weeks, the number of voluntary quits increased sharply — from 91,000 in 1970 to 255,000 in 1972, despite the fact that under the 1971 rules, a week of disqualification reduced benefits by a week, rather than simply postponing them (Table 8-2). As a proportion of initial claims, voluntary quits rose from 5.4 per cent to 12.4 per cent in this two-year period. Some of this increase may have been due to extensions in the coverage of the UI program in 1971, tighter administrative control of voluntary quitting, and to the lower entrance requirements which may have encouraged people to take short term jobs and then quit in order to receive UI benefits. It is not clear, however, that these

changes alone would account for the dramatic increase in voluntary quits after 1971.

In 1976 when the maximum disqualification for voluntary quits was raised again to six weeks, the number, which had continued to increase between 1972 and 1975, dropped by 30,000 (from 281,000 to 252,000) and continued to decline over the next three years, reaching 216,000 in 1979. It should be noted that this decrease may also in part have reflected the deteriorating employment situation and higher unemployment rates of the period, which tend to reduce quits, as well as the effects of the increased maximum disqualification itself. The increase in the maximum disqualification had only a marginal effect on reducing these claimants' time on claim (duration was reduced by about half a week). This suggests that claimants who voluntarily quit could still claim benefits for substantial periods, despite their disqualification, simply by waiting it out. The evidence therefore indicates that although the number of voluntary quits may respond to the penalties imposed, their duration on claim is less sensitive.

Table 8-2

Disqualifications for voluntary quits without just cause

Year	Total	As per cent of insured population	As per cent of initial claims
1965	91,327	1.96	7.55
1966	89,772	1.98	7.67
1967	84,843	1.78	6.36
1968	86,207	1.68	5.65
1969	79,386	1.44	5.64
1970	90,987	1.61	5.42
1971	136,033	2.37	7.31
1972	255,170	3.25	12.44
1973	237,134	2.86	12.11
1974	265,831	3.08	12.53
1975	280,845	3.14	11.24
1976	252,137	2.73	10.59
1977	231,230	2.43	9.86
1978	225,502	2.30	10.14
1979	216,334	2.17	10.30

Source: Statistics Canada, *Statistics on the Operation of the Unemployment Insurance Act*, Cat. No. 73-001.

The Task Force feels that paying approximately \$450 million per year in benefits to people who quit without just cause is not appropriate, particularly in periods of high unemployment and fiscal restraint. Furthermore, the Task Force believes that stronger penalties for voluntary quitting would strengthen work

attachments and further reduce the number of voluntary quits, although the impact on their claim durations would be less clear. Considerable cost savings would still result. Such increased stringency, by lengthening work attachments, would be consistent with the objectives of the current Review, which are aimed at enhancing the labour market role of UI. Similar treatment should also be directed at the other misdemeanours under the UI Act, listed earlier. There are two major means available for achieving this result.

Under the first option, the maximum disqualification for voluntary quitting and other major misdemeanours could be further increased from six to 12 weeks, with a new minimum of seven. This approach would still permit some variation in the length of the disqualification depending on any extenuating circumstances. It can also be expected to be a much greater deterrent to quitting without just cause than is now the case.

A second option would be to disentitle those who voluntarily quit without just cause until they are laid off from another job. This could be further strengthened by requiring them to obtain a certain number of additional weeks of insurable employment (for example, six) before being entitled to benefit.

The second option would likely be a greater deterrent to quitting than the first, resulting in payment of even fewer benefits to that group. Option two's approach of requiring a return to employment before receiving benefit could be extremely contentious in areas and among groups of high unemployment, and would put a particular onus on the adjudication process in the determination of just cause.

The increased stringency of each of these options could either be moderated or reinforced by changes in related regulations. Their stringency could be moderated if the program accepted as disqualification time any self-imposed disqualifications incurred by voluntary quitters who wait several weeks before claiming UI. Under current UI regulations³, such self-imposed disqualifications have little or no impact on the disqualification they must serve after they apply.

On the other hand, the stringency of the two options could be increased by measures that prevent a claimant who had voluntarily quit from avoiding disqualification by accepting and then being laid off from a job of very short duration. This could be accomplished, for example, by a change in regulations⁴ so that, for the purposes of identifying the claimant's reason for separating from

³ Regulation 59 (1)

⁴ Regulation 59 (2)

his/her last employment, the last employment would be defined as the most recent job at which he/she worked for more than four weeks.

The Task Force has not considered in detail the impact of further regulatory changes. But it is aware of the important effect these may have on the application of more stringent measures for voluntary quits. Such regulatory changes will require fuller examination during the development of new legislation and regulations.

Finally, it should be noted that the recent United States Commission on Unemployment Compensation recommended that the treatment of voluntary quits be

based on the principle of disqualification (as practiced under the current Canadian program), rather than requiring that the person secure additional weeks of employment (the current practice in most US state programs). This reasoning appears to reflect the view that current state practices, for the most part, are too stringent, particularly in periods of high unemployment when it may well be beyond the person's ability to find a new job after quitting.

On balance, the Task Force prefers an option which would extend the current disqualification provision for voluntary quitting without just cause, being fired for misconduct, or refusing a suitable job, rather than requiring claimants to seek additional weeks of work.

Chapter Nine

Special Benefits

Since 1971, UI has paid benefits to eligible workers whose earnings are interrupted by illness or pregnancy. UI has also made a lump sum payment of up to three weeks to major attachment claimants when they reach age 65. This was designed to bridge the gap in income between the time UI coverage ends and pension coverage begins. Because these benefits were seen as special, additional qualifying conditions and rules were introduced to restrict benefit entitlement. Since their introduction, there has been discussion about the appropriateness of including these benefits under UI and about the impact of their additional qualifying conditions and special rules. The Task Force has examined these special benefits, identified the major problem areas relating to each and has suggested directions for changes. These options for change are consistent with maintaining the income protection objective of the program and improving the program's performance in equity, administrative and cost terms.

Maternity benefits

It was recognized in 1971 that earnings could be interrupted not only by job loss or layoff but also by sickness or maternity. With maternity, no scheme existed to cover the loss of earnings. Special conditions were therefore introduced into UI under which, where pregnancy could be proven, 15 weeks of benefit became payable. The payment protected the mother from the earnings interruption caused by her physical incapacity to work or seek work in the weeks surrounding the birth. Since then and particularly in view of the continued absence of an alternative, UI maternity benefits have come to be regarded as a necessary form of income support and an acceptable role for UI with its objective to protect the economic security of workers in Canada. Surveys of public attitudes show broad support for the presence of maternity benefits as part of UI. A 1980 survey¹ found that only 11 per cent of respondents felt maternity benefits should not be paid by UI. Maternity rights, moreover, have been increasingly built into the Canadian working environment, by legislated maternity leave and union agreements. For example, the Government of

Quebec supplements the UI maternity benefits of all public and para-public employees and pays them an additional five weeks of maternity benefits. They also pay all working women in the two-week waiting period for UI maternity benefits. Federal government translators and clerical employees are also paid for the waiting period for maternity benefits, following recent Treasury Board decisions.

At present, up to 15 consecutive weeks of maternity benefits are payable as part of initial benefits. These must be the first 15 weeks of initial benefits and may commence as early as eight weeks before the expected week of confinement and end as late as 17 weeks after the birth.

To be entitled to maternity benefits, the claimant must prove her pregnancy with a medical certificate and have twenty insurable weeks in her qualifying period. In addition, she must have ten or more insurable weeks, or weeks prescribed by regulation, in the twenty weeks that immediately precede the thirtieth week before her expected confinement. This provision has been termed the "magic 10" rule.

Under Section 46 of the Act, a pregnant woman who does not qualify for maternity benefits is disentitled from receiving any benefits in the period beginning eight weeks before the expected week of confinement and ending six weeks after the birth.

The current UI maternity provisions have been criticized on both practical and philosophical grounds. The practical issues relate to the special conditions surrounding payment of these benefits. These include, among others

- the "magic 10" rule, which seeks to ensure the claimant was working at the time of conception,
- Section 46 of the Act, which seeks to ensure that pregnant women who cannot qualify for maternity benefits do not draw benefits in the period surrounding the birth,
- limiting the payment of maternity benefits to the first 15 weeks of benefits.

¹ Goldfarb, *op. cit.*

These special conditions have been criticized as complex and unnecessarily restrictive on the increasing number of working women. Their removal, it is argued, would greatly streamline the program. For example, the application of the two-week waiting period in cases of pregnancy and the restriction of payment of maternity benefits to claimants with 20 or more weeks of insurable employment in their 52-week qualifying period have both been criticized on the grounds that their application to maternity is restrictive.

In addition to these practical difficulties is the philosophical issue of whether the primary basis for the interruption of earnings should be the mother's physical inability to work or her inability to work because she must remain at home for a period of time to care for the child. The physical incapacity basis of maternity benefits would clearly restrict payment to natural mothers. However, because maternity benefits are not now solely related to physical incapacity, it would follow that coverage could be extended to include those, such as adoptive parents, who do not experience physical incapacity. In many cases, an adoptive parent may be required by the adoption agency to stay home to care for the child. In such circumstances, the adoptive parent (either mother or father) is not physically incapacitated, but is just as unavailable for work as the physically incapacitated natural mother. As an income protection measure, this position would argue that UI has a responsibility to the adoptive parents similar to its responsibility to natural mothers.

Discussion of maternity benefits focuses first on the special maternity conditions and then on the issue of expanding benefits to cover adoptive parents.

The special maternity conditions

The strength of the arguments for removing the special maternity conditions varies with the provisions themselves. It can be expected that their removal would increase the number of people who receive maternity benefits, along with the duration of their benefits. The implications of removing these provisions are summarized by individual provision.

The "magic 10"

The contentious "magic 10" rule has been rationalized on grounds that it establishes a work attachment or insurable interest at the time of conception. Since UI insures against the risk of income interruption, the "magic 10" seeks to reflect this principle by ensuring that a woman is working at the time of conception. Were the "magic 10" rule not in force, it is argued that maternity benefits would lose their insurance element. If, having discovered her pregnancy, a woman were still

able to qualify for maternity benefits, it would no longer represent an insurance payment. The "magic 10" makes it impossible for women who have discovered their pregnancy to get a job just to qualify for UI maternity benefits.

The application of the "magic 10" rule however, can be unfair. Women with substantial work attachments who do not happen to satisfy the "magic 10" requirement are refused maternity benefits in spite of their strong work record. For these women, the "magic 10" amounts to an additional complicated qualifying requirement to be met by those seeking maternity benefits. The "magic 10" contributes to maternity entrance requirements being more stringent than any others in the program.

For most women claiming maternity benefits, moreover, the "magic 10" may be a largely irrelevant way to ensure they have a strong labour force attachment. A recent analysis of maternity claims found that 77 per cent of claimants had over 40 weeks of insurable employment before their claim. Only four per cent had between 20 and 25 insurable weeks. So the labour force attachments of most women seeking maternity benefits were very strong. Few claimants qualified with the minimum of 20 insurable weeks. In this context the usefulness of the "magic 10" as a further criterion for ensuring labour force attachment may be questioned.

The argument that pregnant women will get a job just to qualify for UI maternity benefits can be strongly criticized on the grounds that it misconstrues the reasons why women work. In general, it discredits the motives for women's increased labour force participation. The great majority of women are motivated by a desire to take advantage of job and career opportunities and to contribute directly to the family income, rather than simply to secure enough work to qualify for UI. Further, in those instances in which UI benefits may attract women into the labour force, the availability of up to 50 weeks of regular benefits is bound to be the major factor in their labour force entry, pregnant or not.

The Task Force therefore believes that the "magic 10" rule probably prevents little program abuse, while unfairly preventing many women with a strong work attachment from receiving maternity benefits. That it is needed to maintain the principle of insurance against risk is also questionable, in that many people take jobs from which it is virtually certain they will be laid off, yet are still indemnified by UI regular benefits. The fact remains that women suffer a loss of earnings through the birth of a child and it is that loss of income that is being replaced through UI benefits.

The capacity of UI to provide income protection against loss of earnings due to maternity would be strengthened by the removal of the “magic 10” rule. Claimants, of course, would still have to show an adequate work attachment in the qualifying period before the birth. This way, maternity benefits would continue to be paid to women whose work attachment is strong enough to qualify them for regular benefits.

Further, the possibility that maternity benefits could be extended to adoptive parents would make the “magic 10” inappropriate in these cases. Continuation of the rule for natural mothers, with no similar restriction on adoptive parents, would appear discriminatory and difficult to defend. The Task Force therefore proposes, on grounds of simplicity, equity and the strengthening of the program’s income protection capacity, that the “magic 10” rule be removed.

Section 46

The disenfranchisement on grounds of presumed physical incapacity in Section 46 is for a specific period (from eight weeks before the expected week of birth to six weeks after). It has been argued that such a period is not appropriate for all women. It is argued that, in fact, many pregnant women are not incapacitated during the whole period so their disenfranchisement for the entire period is inequitable. In addition, while the Section 46 disenfranchisement is for a fixed period, usually 15 weeks, maternity benefits themselves are payable more flexibly (for 15 consecutive weeks in a possible 26-week period). The Section 46 disenfranchisement period thus may not coincide with the period during which maternity benefits are paid. If maternity benefits, in effect, are no longer paid on the basis of physical incapacity in a fixed period, it is also inconsistent to base the Section 46 disenfranchisement on such grounds.

Removal of Section 46 would end the inequities and inconsistencies already described. But to qualify for benefits in the weeks near the birth, a claimant not eligible for maternity benefits would still have to prove either that she was capable and available for work (in order to receive regular benefits) or that she was incapable (in order to receive sickness benefits).

Limitation to first 15 weeks

The intent of this rule is to contain private sector costs and prevent abuse by having maternity benefits replace the first 15 weeks of regular benefits. But there is an inconsistency in the treatment of maternity and sickness benefits. Sickness benefits, at present, can be claimed any time in the initial benefit phase while maternity cannot. This unequal treatment of maternity and sickness benefits could therefore be removed, on

equity grounds and to strengthen the capacity of maternity benefits to provide income protection on as flexible a basis as possible. This would mean that claimants could receive 15 weeks’ benefits in the period surrounding the birth even if they had taken regular benefits before. In addition, in the context of a single phase benefit structure, which was discussed in a previous section, removal of the limit on maternity benefits to the first 15 weeks of a claim would imply that under this benefit structure, maternity benefits could be drawn any time in the 52-week benefit period — a further extension of their availability.

The waiting period

It was suggested that no waiting period be imposed on women entitled to maternity benefits, on grounds that women with a short period of inactivity may lose two weeks of benefits as a result. But removing the waiting period would result in a major inequity, since all other claimants would still face it and the earnings interruption that comes with it. Furthermore, since many women go on to collect regular benefits after their maternity benefits, it would mean many women would get regular benefits without having served a waiting period. Although this could be remedied by the introduction of a waiting period before women can transfer from maternity to regular benefits, serving the waiting period at this point in a claim would not be consistent with the rationale for the waiting period. It would also add to administrative difficulties.

Elimination of the waiting period for maternity claimants would also add to program costs. As a precedent, it would contribute to pressures for further waivers in other circumstances. The insurance principles on which the waiting period is based (that the insured bear a portion of the cost of the protection) would also be seriously undermined. On these grounds, the Task Force does not support a waiver of the waiting period for maternity claimants.

The 20-week entrance requirement

Representations have been made, on grounds of equity and simplicity, to pay maternity benefits under the same entrance requirements as regular benefits. This suggestion, which is supported by the Task Force, is discussed in more detail previously in the section on entrance requirements and benefit structure.

Physical incapacity as a basis for benefit payment

In addition to focussing on the special maternity conditions, extensive discussion has centred around the “philosophical” basis on which maternity benefits are paid. When introduced, they were intended to protect

the mother from an earnings interruption caused by her physical incapacity to work or look for work in the period surrounding the birth. In practical terms, however, the benefits have been used more to enable the mother to care for the child after birth, and less because of her strict physical incapacity to work.

The 1975 Statute Law (Status of Women) Amendment Act, for example, made payment of maternity benefits more flexible, in recognition of women's varying needs and circumstances. The Act removed the fixed 15-week maternity benefit period² and replaced it with a more flexible provision which allowed women to draw 15 consecutive weeks of maternity benefits at any time in the 26-week period beginning in the eighth week before the expected week of birth, and ending with the seventeenth week after the week of birth. Since 1976, there is growing evidence that the pattern of maternity claims has been changing. More women appear to be working until a few weeks before the expected birth, claiming most if not all of their maternity benefits in the period following the birth. For the great majority of these claimants, physical incapacity extending 17 weeks after the birth is extremely unlikely. Rather, they are in reality using more of the maternity benefits during the period in which they are providing the child with post-natal care. The concept of physical incapacity, under these circumstances, is increasingly difficult to justify and administer.

A return to a strict interpretation of physical incapacity as the basis for maternity benefits would probably solve the philosophical problems caused by the departure from this original basis of benefit payment. Such a strict interpretation would involve the payment of maternity benefits only during the period in which the woman is likely to be physically incapacitated by the birth — a period of perhaps four or five weeks surrounding the birth itself. This basis of benefits obviously would significantly reduce the number and duration of maternity claims. It would also reduce the potential for some women, after receiving maternity benefits, to switch to regular benefits and exhaust these before dropping out of the labour force completely.

Significant cost reduction would also result. This might be seen as desirable, since a rising proportion of UI benefits have gone to maternity claims in recent years (3.9 per cent of all benefits in 1974 versus 5.2 per cent in 1979, for a total of \$208 million). In interpreting these cost data, however, it should be kept in mind that an important contributor to these increased maternity claims is the rising number of women in the labour force

itself. Changes to maternity provisions based on cost considerations alone must be made with caution.

Return to a strict physical incapacity basis for maternity benefits would re-establish a clear philosophical foundation for their payment and achieve significant cost savings. However, in the judgement of the Task Force, it would constitute a significant step backwards in social policy. In a period in which women's labour force participation is increasing steadily, such a change would greatly reduce the income protection capacity of UI as it applies to working women. Since it would contradict the intent of the 1975 Statute Law, referred to above, it would be difficult to justify.

An alternative direction of change would be to recognize the increasing use of maternity benefits during the period of post-natal care, and to take this explicitly into account when determining the coverage of the maternity provisions. Expansion in this direction, however, would involve the extension of maternity benefits to adoptive parents, if the expanded provision were to be applied equitably. Adoption agencies often require that an adoptive parent remain at home to care for the new child. In this event, an earnings interruption can occur, just as with natural parents. Payment of maternity benefits on the basis of child care, therefore, would apply to both natural and adoptive parents to avoid discriminatory application of the provision.

Extending maternity benefits to adoptive parents would have to define clearly how the provision would apply, since a number of designs are possible. For example, benefits could be payable only when the children were below school age or when the adoption agency explicitly required that a parent remain at home to look after the child. Adoptions by marriage would presumably be excluded, as would other contingencies not directly related to adoption or childbirth. Benefits could be extended to either adoptive parent although only one parent at a time could receive benefits. While benefits to adoptive parents would not be payable before the child's arrival, the normal rules governing regular and sickness benefits could prevail in the pre-maternity period for natural mothers. This would involve removal of the limitation of maternity benefits to the first 15 weeks of the claim. As noted above, the "magic 10" rule would also become inappropriate in the case of adoptive parents.

In summary, the Task Force suggests the elimination of the "magic 10" rule, Section 46 and the provision which limits payment of maternity benefits to the first 15 weeks of benefits. The Task Force also favours the extension of maternity benefits to adoptive parents. These changes will result in much more equitable maternity provisions. The earnings interruptions of adoptive

² This included the eight weeks before the expected week of birth, the week of birth itself, and the six weeks following.

and natural parents will receive similar recognition, while elimination of the special maternity conditions will remove the potential inequities contained in such rules. The changes will recognize the increasing labour market contribution of women, and will constitute a major step forward, both in simplifying the maternity provisions themselves, and in strengthening the income protection capacity of the UI program as a whole.

Sickness benefits

Sickness benefits were introduced in the 1971 legislation on the basis that sickness was a cause of income loss which should be indemnified by the program, particularly in cases where illness was not covered by private sector arrangements. Claimants with at least 20 insurable weeks are entitled to a maximum of 15 weeks of sickness benefits based on the nature of and proof of incapacity via a medical certificate. These benefits may be paid any time in the 25 weeks of initial benefits. The combined total of sickness and maternity benefits, however, cannot exceed 15 weeks. Provision of sickness benefits helps the UI program achieve its objective of protecting the economic security of workers who, through no fault of their own, have an interruption of earnings. In this sense, sickness and maternity situations are viewed in parallel with involuntary unemployment due to layoff.

While the concept of sickness benefits in the UI program did not initially receive the widest support, there is evidence that at present most employees in Canada support the continued provision of sickness benefits under UI. Furthermore, indications are that the provisions are operating well. The average duration of UI sickness benefits is about nine weeks, which suggests that coverage under the provisions is adequate.

UI sickness benefits are firmly entrenched as a cooperative venture between private sector and government insurance plans which increases the income security of the workers covered. Where private sector wage loss insurance plans exist, for example, special arrangements are made to permit the employers involved to pay reduced UI premiums. If those covered under these private plans fall sick, they draw their wage loss benefits first. If their private sector coverage runs out and they are still unable to return to work, they draw UI sickness benefits. The UI sickness provisions thus seek to meet the income protection needs of those not covered privately, or to increase the protection of those with private sector coverage, as part of the program's overall income security objective.

Some legislative weaknesses have been identified which preclude employers from qualifying for premium

reduction and which also hinder the program's administration. The Task Force suggests that legislative amendments be introduced to eliminate these weaknesses. For example, permitting the antedating of an application for reduction of premiums would allow employers whose delays in applying are justified to benefit from a reduced premium. The Commission should also have the authority to reconsider a previous decision on premium reduction and change it if necessary.

The contribution of UI to income protection in the event of sickness would also be greatly strengthened if the 15 weeks of benefits could be taken at any time in the 52-week benefit period, rather than being restricted to the 25 weeks of initial benefits. This would be particularly important in the context of a one-phase benefit structure, a possible program design feature described earlier. To enhance further the income protection capacity of UI sickness benefits, the Task Force suggests that the availability of sickness benefits be extended to any time in the benefit period.

Special severance benefits

A lump sum payment of up to three weeks' benefits is now made to claimants with 20 or more insurable weeks when they reach age 65. This "retirement" benefit was originally seen as necessary to bridge the interruption of earnings between the end of coverage under UI and the start of Canada or Quebec Pension Plan payments.

Retirement benefits, however, constitute only one of many social policy issues affecting workers in this age group. Moves away from mandatory retirement at age 65, human rights issues pertaining to the right to work, and growing concerns over the adequacy of pension arrangements are all major questions relating to the economic security of older people. The aging of the labour force, in large measure brought about by the expected decline in the number of younger workers, ensures that these issues will grow in importance.

In this environment, the three-week retirement benefits must be seen as a minor contribution to the economic security of those over age 65. Moreover, because the retirement benefits are now payable to eligible workers reaching age 65 whether or not they keep on working, the original rationale for their payment has become increasingly difficult to sustain. In addition, it has been argued from an insurance standpoint that the payment of these benefits cannot be justified on the grounds of a return of premiums. In parallel situations such as term insurance, for example, there is no such return of premiums. For these reasons, continuation of the retirement provisions is difficult to

justify. Their removal would also simplify program administration and modestly reduce UI expenditures.

In the longer term, major issues will remain regarding the economic security of older people. These questions

will call for longer term solutions in areas such as the right to work and pension adequacy, among others. The contribution of UI in the broad context of these solutions will require extensive review, as the direction and nature of the developments become clearer.

Chapter Ten

Insurable Employment and Earnings

Determining a claimant's eligibility for and benefits under UI — the delivery of the program — depends on the employer correctly identifying the claimant's insurable employment and earnings and accurately reporting these to the Commission on the Record of Employment (ROE). Within five days of a worker's separation, the employer must complete an ROE. The ROE reports, among other information, the reason for separation, the number of weeks of insurable employment in the last 52 weeks, the insurable earnings for the last 20 weeks and the amount and type of various payments made to the employee upon separation. The ROE is the document fundamental to the establishment of a claimant's benefit period and to the determination of entitlement to benefits under the Act.

It follows that correct identification of insurable employment and earnings means employers must have workable definitions which are straightforward and uniformly applicable across Canada. Accurate reporting of this information to the Commission requires that employers can retrieve and transmit the information. Systems for verifying and auditing the accuracy of employers' records also make an important contribution to the basic objective of ensuring that claimants receive the benefits to which they are entitled. To be successful, these systems should function as smoothly as possible.

In each of these areas, however, many design problems and administrative difficulties have developed. This has led to substantial errors in benefit payments. A sample survey of ROEs in 1976 and 1977, for example, found that almost half the forms examined contained errors. Of these, about three-quarters incorrectly reported insurable earnings, over one-third erred in insurable weeks reported and one in ten contained errors in reporting earnings on separation. In 1978, employer errors like these on the ROE were identified as the cause of over- and under-payments totalling \$177 million.

At least as important, moreover, have been the personal inequities involved in errors in program delivery. Unclear definitions of insurable employment and earnings, complex rules for determining coverage under UI and inaccurate reporting by employers have led people

in similar circumstances to receive different treatment under the program.

In each of the areas under discussion, therefore, problems of design and administration must be addressed and proposals made for desirable directions for change.

Problems of design

Determination of insurable employment

The absence of a clear definition of insurable employment and the complex array of special rules governing its determination¹, have resulted in uncertainty, error and inequity. There is therefore a need to define insurable employment more clearly, positively and comprehensively.

Specifically, the UI legislation should contain a definition insuring all dollars earned and hours worked under a master/servant relationship, with a contract of service and control. This would mean eliminating the weekly insurability condition as it now appears in the UI Act.² Minimum weekly insurability would be replaced by a minimum qualification requirement, expressed in dollars and calculated by multiplying 20 per cent of the maximum weekly insurable earnings by a minimum measure of work attachment, preferably the applicable entrance requirement.

Using present program provisions, for example, the minimum qualification might be calculated as follows.

- 20 per cent of maximum weekly insurable earnings: \$63
- minimum measure of work attachment: 10 weeks
- calculation of minimum qualification:
 $\$63 \times 10 = \630

¹ Sections 3 and 4 of the UI Act, and Part III of the Regulations relate to insurable and excepted employment. They are reproduced in Appendix IV.

² The employment of workers is now included as insurable if their work with an employer involves either earning at least 20 per cent of the maximum weekly insurable earnings (\$63 in 1981) or working at least 15 hours a week. Authority for this regulation is contained in Section 4(3)(h) of the UI Act.

Thus, for a person earning \$31.50 per week, all dollars earned would be insurable. The person would not be eligible for UI benefits, however, until he/she had met the basic entrance requirement in his/her region (in this case, ten weeks) *and* earned at least \$630. To meet the latter he/she would require 20 weeks of employment.

This would result in a number of improvements over present provisions. Broadening the coverage to include all hours worked and dollars earned, would provide for more equitable treatment of a number of workers who, despite long-standing work attachments, are not at present eligible for UI coverage. These include people who regularly work for several employers in a week or whose part-time work attachments, while limited in terms of weekly hours worked, are still maintained over a significant period. These workers would be eligible for UI coverage under the new provisions, providing their work attachment were sufficiently stable to allow them to accumulate the minimum required earnings.

Second, the new qualification would greatly simplify the employer's task in completing the Record of Employment (ROE) and reduce government resources taken to verify and correct employer errors. At present, there are many workers whose weeks of employment are sometimes insurable under current rules, and sometimes not. When completing ROEs, employers often have difficulty distinguishing between their employees' insurable and non-insurable weeks. The new qualification would remove this difficulty from employers, since all earnings would be insurable. This, in turn, would improve the accuracy with which employers report insurable employment and earnings on the ROE, reducing the time taken by UI agents in verifying and correcting them.

Third, although the current regulations, which became effective on January 1, 1981 increased the coverage of the program, the proposed new qualification would extend coverage further still, to include an additional 200,000 workers. While this extension of coverage could add to the volume of ROEs employers would be required to complete, it would likely be offset by the considerable simplification the new provision would bring to the ROE completion process itself. The extension of coverage would also, of course, involve payment of premiums by both the covered employees and their employers, adding somewhat to the latter's costs.

Finally, the change would retain the important insurance feature of requiring a minimum work attachment, or insurable interest, from those seeking coverage. It would also prevent most trivial claims.

Treatment of earnings

Benefits are payable under UI, not when employment ceases but when earnings from that employment cease or, in the case of sickness or maternity, when earnings are interrupted or reduced. Before benefits are paid, it must be established that there has been an interruption of earnings. At the time a worker separates from work, however, a variety of payments can be made. Most frequently, for example, vacation pay and severance pay are paid in addition to the worker's wages from the final pay period. This raises the issue of how to treat payments received by a claimant at the time of separation from employment. The central questions are

- whether these payments are classed as insurable earnings, and
- whether, as earnings from employment, they affect the payment of benefits.

The issue of how to treat these payments has been dealt with by regulations³ carried over from before 1971, outlining what are and are not earnings for UI. Many changes have been added, however, leading to increasing inconsistencies, ambiguities and administrative problems. For example, some types of earnings may be treated in one way for insurability purposes but in another for benefit purposes. Thus, vacation pay paid at separation along with wages for the last pay period increases the insurable earnings only for that pay period. However, for benefit purposes, the vacation pay is allocated to weeks following the separation according to the worker's normal weekly earnings. These weeks to which the vacation pay is applied prevent the establishment of an interruption of earnings but are not considered as insurable weeks.

In addition, different types of earnings may receive similar treatment for insurability purposes, but different treatment for benefit purposes. Accumulated sick leave credits, like vacation pay, are insurable when included in the last pay period. But, while vacation pay is considered

³ Section 57 of the UI Regulations defines what is or is not earnings and Section 58 defines how these are treated for UI purposes. Both sections are reproduced in Appendix III.

Payments considered as earnings include, among others, vacation or holiday pay, certain bonuses and gratuities, wages in lieu of notice, commissions, and the value of benefits in kind received from or on behalf of an employer in respect of employment.

Payments not considered to be earnings for UI purposes include, among others, pensions, payments under a sickness or disability plan that is not a group plan, and approved supplemental unemployment benefit plan payments. Amendments have also classed as non-earnings severance pay, retirement leave credits and accumulated sick leave credits, among others.

as earnings for benefit purposes, accumulated sick leave credits are not.

Furthermore, depending on when the payment is made, treatment of it may vary. Vacation pay received while working can be insurable but if paid after separation, it is not. Recognizing this, moreover, some employees and employers have been able to circumvent the earnings provisions legally by ensuring that vacation pay is not disbursed at separation, so that workers' benefits will not be affected.

There can also be great difficulties, in a given situation, in distinguishing between different types of payments received on separation. For example, cases have arisen in which wages in lieu of notice, which are included as earnings for benefit purposes, have been difficult to distinguish from severance pay, which is not. This has had important implications for the benefits of the workers involved.

In view of these complexities, there is now no assurance that earnings are treated in the same way across the country by either UI agents or employers. There has also been increasing controversy between the Commission, employers and employees over what should be considered earnings and confusion among employers, when completing the ROE, over how to report payments made on separation. This has led to the considerable employer errors described above. The Commission's insurance agents must also spend extensive time and effort to verify with employers the treatment of different types of earnings. This can lead to delays in the processing of claims and as a result in the payment of benefits.

To improve public understanding of the provisions, streamline their administration and ensure that they are uniformly and equitably applied, there is a clear need to adopt a consistent approach to the treatment of earnings on separation. There are two ways of doing this: monies paid or payable on separation or layoff could all be insurable and treated as earnings for benefit purposes, or they could all be non-insurable and ignored for benefit purposes.

While these alternatives are diametrically opposite in approach, they share the important advantage over all intermediate positions in that the treatment of all monies on separation would be completely consistent for both insurability and benefit purposes. Thus, if monies received on separation were treated as insurable earnings, they would become weeks of insurable employment allocated to the period after separation, and would extend the claimant's insurable employment accordingly. Premium deductions would be made in respect of them, and they would count in the claimant's eligibility for benefits. If the monies received on separa-

tion were not allocated as insurable earnings to the subsequent weeks, they would not extend the claimant's insurable employment and would not reduce or delay the claimant's benefits. In either case, employers and UI agents would not need to differentiate between types of termination payments. Treatment of earnings would be uniform throughout Canada, and potential errors would be reduced.

On other grounds, however, the alternatives would differ in several important ways. Taking account of all earnings on separation would mean that all monies paid or payable on separation would be insurable and could be allocated to the weeks following separation to reduce or delay benefit payment. This alternative would thus be more fully consistent with the strict concept of an interruption of earnings contained in the 1971 UI legislation. Earnings would be regarded as insurable which are now not insurable. This extension would thus broaden the application of the provision that benefit payment occur only after earnings from employment had expired. The potential confusion between, for example, severance pay and wages in lieu of notice would be removed, which would enhance understanding of the provisions.

However, the alternative would appear to reverse previous discussions regarding some types of payments on separation, since it would in effect reinstate strict earnings provisions earlier revoked, and would thus limit benefits. In addition, "legal" abuse of the strict provision, including avoidance of disbursement of vacation pay at separation, would continue and possibly increase. The tighter interpretation of earnings could lead to more monies being paid before or after separation in order to avoid reducing or delaying benefits.

The alternative approach, which ignores all earnings for insurability and benefit purposes, will have a significantly greater impact on simplifying program administration than the first option. This simplification would apply both to employers and the Commission. Under this alternative, no monies paid or payable on separation would be reported by the employer and none would have to be verified by the UI agent. This would be considerably simpler than the first, which still requires listing and verification of the monies on separation. It would thus greatly reduce errors on the ROE, both in the employer's identification of the payments themselves and in the calculation of how those payments affect the rate of benefit and the commencement of the benefit period. It would also produce significant administrative cost savings and enhance the speed with which claims were processed and benefits paid.

The second alternative would also reduce "legal" abuse of the treatment of earnings provisions; since all

earnings would be excluded for benefit purposes, there would be little or no incentive for employers to arrange separation payments to avoid reducing benefits. The alternative would also achieve consistency in the treatment of earnings without reinstating restrictions earlier revoked.

This alternative, however, would not meet the strict interpretation of an interruption in earnings contained in the first, although this disadvantage also applies to existing arrangements. It would also allow payment of UI benefits at the same time as the claimant was receiving monies from employment, although the extent of this double indemnification is small, covering about one week, on average. Receipt of both UI benefits and monies from an earlier employment could also result in a high level of income replacement for some claimants, and could result in a disincentive to return to work quickly. This alternative would not interfere, however, with specific arrangements where the insured person continues to be employed but is absent from work because of holiday, leave or vacation whether or not general or continuous. In fact, this person continues to be employed under a contract of employment and is in receipt of his/her normal remuneration in respect of this period. Therefore he/she will be regarded as having worked a full working week and thus, not unemployed.

In cost terms, although the second alternative would directly increase UI benefit costs somewhat, these could be at least partially offset by the reduction in errors and in over- and under-payments which would follow the introduction of consistent, streamlined and understandable provisions regarding the treatment of earnings.

Both alternatives, in summary, would contain both advantages and disadvantages vis-à-vis each other although either would be preferable to options in which the treatment of monies on separation was not consistent and equitable. On balance, the Task Force would favour the second alternative discussed — the exclusion of all earnings on separation for insurability and benefit purposes. Preference for this approach rests on its administrative simplicity and the improvements of service that would result. The removal of the incentive for employers and employees to circumvent its regulations is a further practical advantage to the second alternative.

Administrative problems

Division of responsibilities

Under the present division of responsibilities among government departments, Revenue Canada, Taxation (RCT) is responsible for deciding on the insurability of

jobs and earnings for the collecting of UI premiums. The Canada Employment and Immigration Commission (CEIC) decides on weeks of insurable employment and earnings for the payment of UI benefits. Although the existing division of responsibilities is well-defined, a close liaison exists between the two departments. For example, in response to the Auditor General's concerns, the CEIC negotiated an arrangement with RCT whereby CEIC Investigation and Control officers were authorized to conduct in-depth investigations of employer records in order to determine the validity of information recorded on the ROE. This special arrangement came into effect in early 1979, and has proven to be a good tool for detecting ROE completion errors, particularly errors relating to the calculation of insurable weeks and insurable earnings, the two key elements on which eligibility for and payments of benefits are based.

However, this arrangement dealt only in a very limited fashion with the ROE control-related problems facing the CEIC, and may not be an adequate measure for dealing with the problems over the longer term. It has been suggested that a more coherent determination of insurable employment and earnings (for both premium and benefit purposes) could take place if the responsibility and the associated audit functions were centralized within the CEIC. Proponents of such a change argue that it might also simplify the development and administration of UI coverage policy, reducing or eliminating a major source of administrative errors. CEIC responsibility for auditing employer records for insurability purposes would also be valuable. It would improve the Commission's control functions and could substantiate an extension of UI audits into the employment and immigration areas. It would also be easier for employers and employees to deal with only one agent regarding UI auditing.

However, it is not clear that, within the existing division of responsibilities, all avenues for addressing control-related problems have been considered and assessed. For example, there may be additional scope for further arrangements such as the ROE validation described above. It has also by no means been proven that a centralization of responsibilities would significantly reduce administrative errors. This change would also have important implications for both departments. Transfer of the coverage and audit responsibilities would clearly require an increase in CEIC resources and a corresponding reduction in those of RCT. CEIC officers would also need training in these fields. Finally, since RCT is responsible for determining both UI insurability and eligibility under the Canada Pension Plan (CPP), the transfer to CEIC of the former would raise the issue

of whether CPP should not also be transferred to avoid duplication of auditing functions between the two agencies.

In summary, although the centralization of responsibilities for deciding on the insurability of employment and earnings for both UI premium and benefit purposes could result in a more coherent policy and in a streamlined administration of UI, such a move would have important implications for both agencies and for employers. Still, it is a course of action which merits further exploration both within the CEIC and between the CEIC and RCT.

As discussed earlier, the errors in employers' reporting of insurable employment and earnings and their treatment of money paid on separation account for a lot of the errors on the ROE. This in turn, contributes substantially to benefit over- and under-payments. The Task Force feels that a significant reduction in these errors would occur if employers could more clearly identify insurable employment and earnings and if the treatment of earnings at separation were simplified and made more consistent. It is felt that the improvements proposed would make a major contribution in this direction. Centralization within the CEIC of the responsibilities for determining insurability of employment and earnings for both premium and benefit purposes and the associated audit functions should also be explored to determine the extent to which it could add to the consistency of policies and reduce errors.

Employers' reporting system

In addition to the errors discussed above, which are largely due to the employer's difficulty in understanding the concepts or rules involved, substantial errors also come from the fact that some of the information required by the Commission on the ROE is not readily available from some employers' payroll records. Although the ROE requires the number of weeks of insurable employment the employee had in the last 52 weeks, this 52-week qualifying period will in all probability not correspond to the employer's fiscal year. So the employer must refer to records of an earlier fiscal year to compile the information. Many employers, furthermore, do not keep track of people's earnings by week — a source of further reporting difficulties — or may be unable to issue the ROE within the required five days of separation because of their type of payroll or pay period.

These problems of employers with the ROE are inherent in the very nature of the present ROE system. In spite of possible improvements in employers' understanding of the concepts through more consistent defini-

tions or streamlined rules, the variations in payroll systems and practices and the nature of the information required on the ROE mean that there will still be a great potential for errors and delays. Because these problems are inherent in the system itself, they could best be overcome by a fundamental longer-term restructuring of the system as a whole, rather than a series of changes focussed exclusively on modifications to the present system. The overwhelming scope and complexity of the issues and their direct implications for the private sector suggest that a review leading to such a basic restructuring must involve extensive employer participation with the CEIC and other government departments such as RCT.

The most comprehensive form such a restructuring could take would be the establishment of a computerized system to record the earnings of all insured persons. One approach, for example, would be a variation on the Wage Report System used in the US. Under such a system, employers, on a monthly basis, would supply a centralized computer with data on the employment and earnings of all insured persons on their payroll. The CEIC could simply access this information directly when a person applied for benefits. Hence, the basic information the CEIC would need to establish the claim would be easily retrievable. Only information confirming the worker's separation would be required from the employer when employment ended or earnings were interrupted. Since the data would be up to a month old, the UI qualifying period could be the 52-week period before the month in which the application was made.

With implementation of improved insurable employment and earnings definitions and of a more consistent treatment of earnings on separation, a longer term restructuring of the employers' reporting system could produce even better service to claimants. It would also encourage a further reduction in the administrative burden and errors for the CEIC and employers. Such a system would also provide more built-in control features and improved data for research and policy development.

As noted, however, shorter term measures could be taken to improve employers' capacity to report their payroll information within the existing reporting system, pending a major restructuring of the system itself.

Premiums paid as basis for calculation of benefit rate

Since employers must deduct employee premiums according to schedules relating premiums to employees' insurable earnings, data on premiums are readily available. They are likely to be quite accurate, since both employer and employee have an interest in this accuracy. So premiums paid could be used as the basis

for UI eligibility in a reporting system involving several elements.

Under this system, employers would have to report UI premiums paid for each employee annually. At the time of a separation, the employer would have to issue a separation certificate to the employee within five days of the separation. This certificate would contain basic non-earnings information and would serve primarily to record the separation. At the employee's request, when the claim for UI was filed or within five days after the end of the final pay period, the employer would have to furnish a contribution report listing the premiums paid on behalf of the employee in the current year. The calculation of benefit eligibility would be made by the CEIC using this information on premiums paid in the current year and the existing annual information on the past year's premiums.

The system, however, would depend on the accuracy of the premium data themselves, which is in turn related to the accuracy of determining insurable earnings, where problems would remain. The system would also bring little improvement over current difficulties in identifying claimants' insurable weeks; past years' records would still have to be examined. Administrative complexities would also continue; employers would still have to keep annual premium information and report this each year to the CEIC, in addition to having to complete two separation-related reports for each claimant instead of the present single ROE.

Gross earnings as basis for calculation of benefit rate

Under this system, employers would be asked to report on the number of insurable weeks and the gross earnings for those weeks in the last 52-week period. Benefits would be based on 60 per cent of the claimant's average gross earnings in the 52-week qualifying period, but would not exceed 60 per cent of maximum insurable earnings.

Under this approach, reporting requirements would be easier for the employer, since the information would be readily available. In addition, if employers had to report gross earnings in all cases of separation, this would improve the CEIC's ability to find non-reported earnings and greatly simplify its post-audit program.

The approach, however, would likely lead to situations where a claimant's premiums and benefits were based on somewhat different earnings data, resulting in benefits received not reflecting precisely the claimant's premium payments. This would be particularly pronounced among claimants whose weekly gross earnings fluctuated about the level of the maximum insurable

earnings. In such cases, the person's premiums would be based, as now, on insurable earnings, excluding all earnings above the maximum insurable earnings level. But the person's benefits would be based on average gross earnings over the year — an average which would include some weekly earnings above the maximum insurable earnings level. The benefits, in short, would be based on a slightly higher earnings figure than the premiums. As a result, the claimant's benefits would be biased upwards relative to the premiums paid.

A variation on this approach would be to continue to base the benefit calculation on the last 20 weeks of insurable earnings, despite the employer's reporting of gross earnings.

Normal earnings as basis for calculation of benefit rate

If eligibility were based on normal earnings, instead of on the average of insurable earnings, employers would report a single earnings figure which would be confirmed by the claimant. This would solve the administrative problems related to reporting insurable earnings. Detailed record keeping and record checking by the employer would be avoided. But arriving at the required definition of normal earnings would be extremely difficult because of the variety of forms of contract (hours, piece work, commission, annual salary) and patterns of employment that exist. This in turn could produce inequities. For example, claimants with the same type of job, but whose contracts differ, could receive very different treatment.

Use of T-4 data

The period of employment and the number of insurable weeks could be added to the claimant's T-4 form, produced annually by the employer for income tax. These data could then be used to establish the person's insurable employment and earnings for UI.

Although this approach would be simple for employers, it would create inequities for claimants and lead to major changes in the UI system. In the first place, the qualifying period would no longer be the 52-week period immediately before the separation from employment but would be the preceding calendar year. Secondly, the benefit level would no longer be related to the most recent earnings, but rather to earnings in the previous calendar year.

As a result of these major departures from the current system, claimants who had changed their pattern of employment between the preceding year and the current one might not receive the proper benefit rate. In addition, new entrants or re-entrants to the labour force

would not qualify for benefits because of their absence of insurable earnings in the previous year. Rules could be developed to eliminate discrepancies such as these, but they would probably add to program complexity without ensuring equity.

No matter what option is selected, an important consideration will be the extent to which the information sought by UI is tailored to what is available from most employer payrolls or whether employers should have to have payroll systems capable of producing the information needed by UI. Also important for any amended or new system is the necessity to give feasible deadlines for reporting the information and the assessment of appropriate penalties on employers for non-compliance.

The Task Force has recognized that the existing rules and the reporting system itself are one of the causes for the administrative problems related to the ROE. But it must also recognize that in certain cases, employers are simply not adhering to established rules and practices. To date, the only deterrents available to the CEIC for the prevention of employer non-compliance with ROE requirements have been prosecution action and the use of warning letters. Although prosecution action is clearly the preferred mode in cases of fraud, a less severe sanction is preferable for minor offences such as non-delivery of ROEs. Such flexibility could be gained through the introduction of an administrative penalty system applicable to employers and similar in spirit to that which is currently in place for claimants.

On balance, the Task Force supports the immediate creation of a government-private sector task force to assess in detail the various options and determine the most desirable course of action for the longer term. The

task force terms of reference would have to be both broad and detailed, since they would require the in-depth assessment of payroll systems of all kinds to determine the most appropriate and feasible way of restructuring the employers' reporting system. Private sector expertise and detailed knowledge of payroll systems would clearly be essential to the success of the task force. Due to the potential scope and detail of the undertaking, furthermore, the task force would have to be established as quickly as possible, to enable the earliest possible restructuring of the reporting system as a whole and to allow the lead time necessary to implement it.

Establishment of the task force would be particularly important in view of the above discussions, which point out that none of the shorter term options is without its own difficulties, costs and resource implications. The extent to which the short-term options will eliminate errors is not clear if they continue to require extensive record checking by employers and a non-systematized basis of reporting claimants' employment and earnings. Finally, as noted earlier, the design changes put forward, such as the improved definition of insurable employment and earnings, and the consistent treatment of earnings received upon separation, could simplify considerably the determination of insurability and benefits. It would therefore seem worthwhile to assess the impact of these changes and the reduction in errors likely to result before introducing significant changes, either short- or long-term, into the ROE system. In view of these considerations, formation of a task force to explore these ROE-related options, pending an assessment of the impacts of the design changes, would appear an appropriate approach.

Chapter Eleven

Relationship Between UI and Other Labour Market Programs

Bill C-27, passed in 1977, authorized the use of UI funds for developmental uses — training, work sharing and job creation. This section looks at the reasons for these provisions and examines the current developmental uses of UI funds. In keeping with the review's objective of strengthening the labour market role of the UI program, the section also makes several proposals to encourage longer term employment and job attachment.

Current developmental uses

The main reason for suggesting the use of UI funds for various developmental purposes began with the view that providing income maintenance alone was not always a sufficient justification for UI. This view arose partly because of the relatively high unemployment during the 1970s, when there were difficulties with structural adjustments in the labour market and concern about UI's possible negative impact on work incentives. Responding to these concerns and the need for program alternatives that would allow claimants to make better use of their time on claim, three developmental uses of UI funds were included in the 1975-76 Employment Strategy. The next year they were embodied in the UI Act. As mentioned above, the three uses were training, work sharing and job creation, the latter two set up on an experimental basis only. Basically, the legislation permitted payment of UI benefits to people on approved training, and to those taking part in approved work sharing agreements and job creation projects.

The experience with current developmental uses has so far produced both positive and negative results. A distinction must be made between problems related to the effectiveness of the uses themselves and the difficulties arising from their administrative links to the UI program.

Training

The developmental uses of UI funds have been most extensive and most successful in the training area. UI and training programs can be seen as complementary. The aim of occupational training is to develop new skills

or upgrade existing skills or abilities. This reinforces UI's objective of helping claimants return to productive employment and reduces the chance of renewed unemployment.

Recognition of this duality led to the creation of a joint program paying income support from UI to UI-eligible institutional trainees. Some 100,000 claimant/trainees (almost 60 per cent of the trainees on institutional training sponsored by the CEIC) annually receive about \$200 million in UI benefits. Although the current UI training arrangement only dates back to 1977, it should also be noted that UI's link with training has a much longer tradition.

The use of UI benefits for training allowances is important and firmly established, but the application of the joint program has created problems. These problems arise largely from the simultaneous use of the UI and Adult Occupational Training Acts, each with its own requirements and its own long-established and, in some cases, divergent policies. Where these requirements and policies have differed, administrative difficulties have arisen. These difficulties include inconsistent treatment of people in the same circumstances, undue complexity and increased costs to UI. Administrative problems have not been the focus of the UI Review, but the Task Force has identified several major administrative difficulties in the training area.

Training allowances in the waiting period

The UI Act states that benefits may not be paid until the claimant has served a two-week waiting period. But existing policy permits payment of training allowances to claimant/trainees in that period to ensure financial support for the whole training course.

Training allowances during disqualification

Current practice also permits payment of training allowances to claimant/trainees serving a period of disqualification from UI benefits. This amounts to cancelling the Commission's disqualification decision.

With both the waiting period and disqualifications, the administrative complexity and higher cost of managing the two programs is largely due to switching clients back and forth between the allowance and benefit pay systems. This results in complex administrative procedures and inconsistent treatment of trainee and non-trainee claimants. The Commission's workload also increases along with the possibility of errors in payment.

Extended benefit period for claimant/trainees

The maximum length of a benefit period for UI is 52 weeks, but Section 39 of the UI Act extends it to 104 weeks for claimant/trainees. This means their benefits continue long enough for them to finish their course when their normal benefit period might have ended before the course was finished.

Claimant/trainees are also allowed an extension of benefits of up to six weeks within the 104-week limit. This provides financial support while the claimant looks for work after completing the course. But this extra financial support is not available to people referred to courses under the Adult Occupational Training Act.

Although extension of the normal benefit period may be justified on the grounds stated, these provisions create inequities in the treatment of claimants (and claimant/trainees versus non-claimant/trainees). They also add to UI program costs and result in administrative complexities.

UI funds have come to play an important role in financing training and in making training possible for many people. However, it is also clear that the application of two different acts has led to difficulties. Progress has been made in blending the programs within the existing legislation. But some problems of consistency, complexity, costs, or the potential for setting precedents still persist. A complete solution is unlikely as long as two programs under different acts must be operated together.

Work sharing

Under the experimental work sharing agreements, employers and employees facing short-term employment reduction agreed that all employees would work a reduced work week and get UI for the rest of the week. The work sharing agreements therefore aimed at sustaining employment in periods of short-term adverse economic conditions. The goal was to help keep a stable work force and avoid the erosion of worker skills, habits and patterns of work which might follow from periods of unemployment. The approach was also aimed at avoiding or reducing the costs of unemployment for workers, employers and for the economy in general.

Work sharing using UI funds was designed as an alternative to UI. Although it was generally based on the UI benefit structure, it departed from it in several ways, virtually all involving a liberalization of UI benefit entitlement provisions. Specifically, work sharing benefits were payable without the normal waiting period and receipt of work sharing benefits did not reduce the regular UI entitlement of work sharing participants.

Evaluations of the pilot work sharing projects show that while their theoretical aims may have been justified, the program did not seem to accomplish what was expected. Evidence shows that the payout for work sharing agreements was about 2½ times what would have been paid in their absence. Work sharing appeared simply to have become another way of paying regular UI benefits, since in most instances examined there was little risk that the firm's work force would have dispersed had there actually been a layoff. And although the agreements were designed to ensure that workers' incomes did not fall significantly despite reduced work weeks, specific design features of the agreements resulted in high costs. On average, employees' working time was reduced by 30 per cent, but they forfeited only seven per cent of their gross earnings in the process.

The conclusions from the evaluations are distinctly negative on a cost/benefit basis for financing work sharing agreements through UI. Moreover, from the point of view of the efficient functioning of the labour market it can be argued that work sharing in some cases may impede the adjustment which UI is intended to help.

Job creation

The purpose of using UI funds for developmental job creation was to help claimants use their time on claim more productively by working in community-oriented projects which might otherwise not be carried out because of lack of funds.

Several UI rules had to be changed in the design of this developmental use. The most important was to allow payments well above the person's normal entitlement and in some cases considerably above the maximum benefit normally payable. This broke the usual relationship between insurable earnings and benefits and gave rise to inconsistencies between the treatment of claimants on job creation and other claimants.

Preliminary observations from evaluation of the three pilot projects implemented show that a higher benefit rate was often required simply to attract people to the projects. Additional work-related expenses incurred by project participants also had to be covered. This resulted in payments considerably in excess of the benefits people

would normally have received. Higher costs might have been justified on the basis of other demonstrable benefits, but the evaluation suggests that it was difficult to design useful projects in various areas to test the concept. More detailed conclusions are difficult to draw because the value of the projects to the community has so far not been possible to assess. And no evidence has been uncovered to demonstrate the impact on the employability of the people involved in the projects.

As with work sharing, it must therefore be concluded that UI job creation has resulted in higher UI costs than would otherwise have existed. It has also resulted in administrative difficulties and inconsistencies in the application of UI provisions. It is not clear from available evidence whether the private or social returns from work sharing and job creation were enough to justify the higher costs.

Furthermore, in terms of UI's role in the labour market, a basic inconsistency may exist when benefits are paid to people while they work. This is true if time spent on temporary job creation projects is likely to prevent them from looking for longer term, more stable employment.

In conclusion, the experience gained from current developmental uses has been mixed. Work sharing and job creation show little in the way of success. Training, while basically a sound concept, is beset with problems arising from the joint application of two different programs.

Future directions

Despite the difficulties with current developmental uses of UI funds, the original rationale persists. Simple provision of income maintenance may not always be the most effective use of UI funds. Nor may it be the most effective way of addressing claimants' employment difficulties. Continued investigation is necessary of more effective ways to deal with situations in which UI benefits have contributed to a cycle of dependency.

The basic goal in this connection should be consistent with proposals elsewhere in this review aimed at encouraging longer term employment and stronger job attachment. Suggested increases in the entrance requirement and tougher penalties for voluntary quitting are expected to encourage people to work longer. They should also encourage many employers to change their employment patterns by hiring workers for longer periods. A shorter benefit entitlement will increase incentives for job search. For people who tend to rely on annual patterns of work-plus-UI, this combination of shorter benefit entitlement and higher entrance require-

ment will have the effect of tilting the behaviour pattern toward work and away from UI.

Although the proposed measures for tightening the program can be expected to help strengthen UI's labour market role, it has been pointed out that changes in UI alone cannot be expected to ensure labour market adjustments resulting in longer duration employment. UI does aid labour market adjustment by providing time and money for efficient job search, but there are many situations where job search, however vigorous, may not bring about the required long-term adjustments.

Some unemployment problems, labelled structural, are determined by conditions beyond the influence of the individual worker. For example, there are pronounced differences among the various regions in terms of job opportunities. Lack of job opportunities and consequent high unemployment are particularly apparent in the eastern provinces. But pockets of high and persistent unemployment are also found in areas like northern Manitoba and the interior of British Columbia. Indeed, there is some evidence that it is generally in rural areas that short-term jobs and long duration unemployment are a way of life. In turn, these difficulties relate to area demand deficiency and to seasonal employment patterns. Workers' employment or re-employment may also be inhibited if their skills and experience do not match existing vacancies, either locally or elsewhere.

Under such circumstances, when job search cannot be expected to solve the underlying unemployment problem, UI benefits can result in a cycle of dependency where people alternate between short-term jobs and UI.

It should also be kept in mind that the very policies designed to encourage stronger job attachment may themselves have an adverse impact on some people. Although many people facing longer entrance requirements can be expected to find the extra weeks of work necessary to qualify, some will find it impossible. In the same way, although shorter benefit entitlement will encourage job search, some claimants will simply not be able to find re-employment in a shorter period of time or at all, because their unemployment is structural in nature.

So it must be recognized that UI benefits may not address the employment problems of people whose long-term unemployment is due to structural circumstances. This is especially true for those whose employment difficulties may be aggravated by a tightening of UI entrance requirements and benefit duration. Rather, the opportunity exists to change priorities away from a reliance on income transfers in favour of an economic development thrust which will encourage and facilitate long-term job attachment in order to break the cycle of dependency on UI.

Future linkages between UI and training

Keeping the UI training program can be justified on the grounds that both UI and training try to help the unemployed re-enter the labour force. As mentioned, such UI financing is now an integral part of government-sponsored training. Although some changes in the training program itself may be desirable, the Task Force feels these do not interfere with the basic soundness of the training developmental uses themselves. Moreover, UI's link with training is long-standing — before introduction of the developmental uses, training allowances were topped-up with UI funds.

Continuing the present developmental use of UI funds for training purposes would also continue the administrative problems of two programs governed by separate acts following procedures which have evolved over a long period of use. To avoid perpetuating some of the present inconsistencies and complexities and to reduce the likelihood that precedents would be set for other areas of the UI Act, it is therefore suggested that the provisions for the training use of UI funds be reformulated.

This would recognize that benefits paid for training are different from regular UI benefits and should be governed by special provisions. The Task Force proposes that a separate benefit stream be established for training. This benefit stream might be called “training benefits”, to distinguish it and its purpose clearly from other benefits. Legislation would refer to these training benefits, but their provisions could rest in regulations under the Act, allowing maximum flexibility and responsiveness in their operation.

The new training benefit stream could contain provisions covering situations like extensions of the benefit period or payments in the waiting period and during disqualification. By having special situations explicitly covered by provisions for the separate benefit stream, it would become clear that these particular circumstances are different from ordinary benefit situations and should not be confused with them.

As far as possible, the provisions and treatment of people on training, whether or not they are UI claimants, should be the same, in order to recognize the importance of the training activities. This implies, for example, that paying training benefits in the waiting period or during disqualification could be justified on the grounds that it provides income maintenance to the claimant/trainee in the same way that training allowances provide income maintenance to other trainees.

Increased emphasis on long-term employment

In recent years, governments have tended to rely heavily on income transfers as a means of dealing with prob-

lems of chronic unemployment due to structural factors. Providing income payments to the unemployed maintains purchasing power and aggregate spending in the affected areas but it does not address the causes of these problems. Other initiatives designed to build on opportunities for development and long-term employment have, in this sense, been more to the point. Governments should carefully consider a heavier emphasis on initiatives of this kind.

Such an emphasis would help to reduce the current reliance on UI benefits and other transfers to individuals and to create stable long-term employment, which should be the principal objective in these areas where demand is deficient.

At the federal level, the funds designed to bring about lasting development in areas of chronically high unemployment would have to be determined, of course, in the context of the overall fiscal situation and the expenditure priorities of the government. But this allocation should recognize the long-range nature of the problems to be solved and further thought should be given to the continuing need for innovation in the relevant delivery mechanisms, which should be quite separate from the administration of the UI program.

Possible employment development projects

The question of the precise use of developmental funds is a subject for further discussion. As a start, however, initiatives for study fall into three categories: equity investment, financing extended production seasons in certain industries, and public sector employment as a temporary bridging mechanism.

Equity investment

One approach could be the use of equity investments in support of job creation through community based development. The objective of community based development is to help finance viable economic opportunities on a local or small area basis. This moves away from support of individual entrepreneurs toward a wider approach intended to foster development building on the resources of the area as a whole. Its essence is a team effort by local interest groups, industry and public officials. This effort attempts to mobilize community initiative and production factors towards long-term development objectives. It is a mechanism to bring together public and private resources to create jobs and income for community needs.

Although the emphasis is on the community, development of small enterprises may also be encouraged through the provision of small amounts of risk capital,

overseen by local development groups or associations. This risk capital may in turn allow new or expanding local enterprises to approach commercial financial institutions for more funding.

Subsidies might also be used to encourage firms to move or decentralize some aspects of their operations to smaller towns. For example, the billing operations of utility companies might be moved to smaller centres. This is the same principle as recent federal government decentralization of some functions in a number of departments. Examples of these include the move of the Central Index for Social Insurance Numbers of Employment and Immigration to Bathurst, N.B.; Veterans' Affairs to Charlottetown, P.E.I. and Supply and Services' Cheque Redemption Centre to Matane, Quebec.

It should be noted that in many cases, proposals for support of larger scale projects can be carried out under existing programs like the Department of Regional Economic Expansion's General Development Agreements (GDA) or Regional Development Incentives Program (RDIP).

Extension of season of employment

Another possibility to explore is the support of seasonal industries to help them extend their production season and therefore the duration of jobs. This kind of program could be particularly relevant in the tourism sector and wage subsidies could extend activities into the "shoulder season". This approach could also be used in other seasonal industries such as forestry.

Public sector employment

Although the first priority would be long-term job creation, the initiatives mentioned above tend to have long lead times and permanent job opportunities may develop slowly. In the meantime, short-term jobs may be required to offset the adverse impact that the stricter entrance requirements and benefit provisions may have on some people. Consideration should be given to financ-

ing some form of public sector employment which might be used to hire chronically unemployed people for various public works projects.

Summary

The Task Force proposals may strengthen the labour market role of UI, but alone they cannot be expected to accomplish the goal of encouraging longer duration employment. This is because some unemployment problems are structural, brought on by conditions beyond the influence of individual people. Moreover, the proposals designed to encourage job attachment may have an adverse impact on some people in high unemployment areas. The Task Force feels that while something must be done to help people in these circumstances, it must be emphasized that a long-term solution to their problems is not to be found in continued income maintenance.

For these reasons, the Task Force suggests the continued use of UI funds for training. To reduce program complexity and provide more flexibility in the training provisions, a new and separate training benefits stream is proposed.

Second, the Task Force suggests that the problem of chronic unemployment in certain areas can be dealt with in part through a change in priorities away from income transfers in favour of an economic development thrust. While the amount of funds directed for these purposes and the administrative mechanisms involved remain to be determined, their use would have several goals:

- to create long-term, stable jobs through such measures as promoting community based development projects,
- to help certain seasonal industries extend their "shoulder seasons", and
- to provide direct job creation through public sector employment, as a transitional measure.

These initiatives could make an important contribution to reducing chronic structural unemployment and the cycle of UI dependency that often results.

Chapter Twelve

Financing Issues

Earlier chapters have raised a number of issues related to the financing provisions of the UI program, including the program's impact on income redistribution and macro-economic stabilization. These discussions, however, have been descriptive and have not addressed the question of whether changes in current financing arrangements should be made to enhance the program's capacity to contribute to these government objectives. Another important financing issue, that of experience rating employers' UI premiums based on their layoff experience, has also been raised as part of the program's contribution to labour market adjustment, but has not been explored in detail. This chapter will discuss financing issues in greater depth and where needed, suggest modifications to present provisions. The chapter also discusses optional provisions for benefit repayment by high-income earners.

Tripartite financing and the sharing of costs

The present division of UI program costs stems from the assignment of the cost of individual program elements to either the private or public sector. The private sector, through employer and employee premiums, finances initial and labour force extended benefits, as well as special benefits (maternity, sickness, retirement). It also pays administration costs (including those of the National Employment Service). The federal government, from general revenues, finances regional extended benefits and benefits to self-employed fishermen.

This distribution of program elements in 1980 meant that of a total UI program cost of \$4.8 billion, the private sector financed \$3.8 billion (almost 80 per cent). The federal government paid \$1 billion, just over 20 per cent. The 1980 federal share was significantly below the more than 50 per cent of program costs it had financed in 1975.

This tripartite financing, so-called because of its division among employers, employees and government, has characterized the program since its beginning, but specific arrangements and shares have varied. A system for sharing the cost of UI benefits among the three parties

has major advantages over systems which, by financing the program either totally through tax revenues or totally through premiums, would reduce the number of parties involved to two or even one.

Tripartite financing divides the costs of the program among those parties largely responsible for the unemployment (government and employers) and those whose earnings are insured (employees). The system also reinforces the three parties' mutual interest in employment stability. It gives each party a stake in the program — a reason to see that it responds to each party's needs. Totally employer-financed premiums, for example, could provide cost induced pressures towards restrictive or even inadequate benefits. On the other hand, fully employee-financed premiums would drastically reduce employers' unemployment costs and could lead to greater reliance on layoffs as an adjustment to production changes. Exclusion of the government from the program's financing would greatly reduce its influence over a major social security and labour market adjustment measure, weaken its links to other similar measures and severely impede its capacity to adjust the program to meet emerging needs. At the other extreme, a totally tax-financed government program would either add very significantly to the size of the deficit, leading to a tax increase to meet program costs or bring corresponding reductions in other government expenditures. Without the restraint of higher premiums, pressures could also mount for more and more benefits, leading to serious work incentive problems. So the presence of premiums may impose an element of discipline on the program. The tripartite financing system thus retains a number of distinct advantages over a completely premium- or tax-financed program and should remain as the basis for the program's financing.

Within the tripartite arrangement, though, there have been questions on how appropriate the current divisions of program costs are and whether they should be changed. These questions have applied both to the division of the private sector costs among employers and employees and to the size of the private sector and government financed program shares themselves.

Since 1971, employers and employees have not contributed equally to program costs. Employers pay a premium rate 1.4 times that of employees. The higher employer rate reflects the view that employers have greater control over unemployment than do employees themselves, and seeks to assign the private sector's costs to reflect this fact. Program data support this assignment of costs. For example, most UI claimants leave their jobs because of a layoff or plant closure, over which the employer has more immediate control. Fewer employees leave their jobs by voluntary quitting, for which they have more direct responsibility. By reflecting these sources of job separation, the higher employer share of program costs appears reasonable. Nevertheless, the difference between employer and employee premium rates need not be too great. The employee, as the potential direct beneficiary of benefits, should bear a significant share of the program cost.

Another important point is that the UI benefits which are largely financed by premiums do not meet all the employee's costs of unemployment. Unemployed workers finance part of these costs through the two-week waiting period that must be served before benefits start. They also pay through a reduction in income while unemployed. So employees who become unemployed bear the brunt of those costs of unemployment not covered by UI. Since UI seeks to pool the costs of unemployment among those involved, it would appear appropriate for employers to bear the larger share of program costs, with employees paying most unemployment costs not covered by the program.

It is the Task Force's judgement that the current difference between employer and employee UI premium rates is appropriate in light of these considerations. The parties' separate responsibilities for unemployment, the differing incidence of unemployment costs not borne by the program and the incidence of direct benefits under the program all support this judgement. The different premium rates should continue.

A second issue in the sharing of program costs is the way they are divided between the federal government and the private sector. The current formula, described earlier, allocates to the respective partners the responsibility for financing specific program elements. But these cost sharing arrangements are themselves the result of several major financing changes in recent years. While broadly similar to the cost sharing provisions of the late 1970s, the arrangements differ in some fundamental ways.

In 1980, for example, the cost of administering the Employment Service was transferred from the government to the private sector. In addition, the threshold

financing formula was eliminated. Under this formula, the government had financed not only regional extended benefits but also those initial and labour force extended benefits above a threshold unemployment rate based on an eight-year moving average of unemployment rates. Elimination of this formula shifted a further and quite volatile share of program costs from the government to the private sector, reducing the government's overall program share substantially. The government's costs had ranged from \$1.5 billion to \$2.5 billion from 1975 to 1979, and its share of total costs from 53 per cent in 1975 to 34 per cent in 1979 (Table 12-1). As a result of the above financing changes, however, the government share dropped further to \$1 billion in 1980 — just over 22 per cent of total program costs.

Continuation of current cost sharing arrangements into the future would result in a government share estimated at almost \$1.4 billion in 1984. This would constitute a government share of 18.6 per cent.

These recent financing changes reflect increasing pressures for government spending restraint. Although the changes have succeeded in substantially reducing the government costs of the program, major difficulties remain. In particular, the potential volatility of the government share continues. If the present cost sharing arrangements had been in force between 1975 and 1979, for example, the government cost of the program would still have ranged between about \$470 million and \$1.1 billion — between 14 and 24 per cent of total program costs (Table 12-1). This variation would have reflected the government's responsibility for regional extended benefits, which varied with the unemployment rate during the period. Eliminating threshold financing also increased the variability of the private sector's share.

Recent changes have also left a number of problems unsolved. First, the continued allocation of individual program elements to either the government or the private sector accounts raises possible criticism that the government will design changes to increase those elements financed by the private sector, leaving its own untouched. The argument could conclude that with no involvement in the private sector elements, the government could be less concerned over their costs. With administrative costs the responsibility of the private sector, questions may also be raised about the government's commitment to administer the program efficiently. Worth noting, too, is the likelihood that the complexity of the current financing reduces public understanding of the program and its features.

Introduction of a fixed government share of all program costs would address many of these difficulties. A

Table 12-1

Comparison of government cost of UI program under alternative financing arrangements (1975-1980)

	Actual government cost ¹		Estimated government cost assuming 1980 cost sharing arrangements ³		Total program cost ¹
	(\$ million)	(per cent)	(\$ million)	(per cent)	(\$ million)
1975	1860	53.3	473	13.6	3487
1976	1523	41.2	566	15.3	3696
1977	1975	45.8	708	16.4	4312
1978	2478	49.7	1200	24.1	4984
1979	1509	34.2	976	22.2	4405
1980 (preliminary)	1095 ²	22.5	870	17.9	4858

¹ Costs include net benefits to self-employed fishermen, UI administrative costs and estimated costs of administering the employment service.

² Includes threshold financing costs and the estimated costs of administering the National Employment Service for the first three months of 1980.

³ Assumes that program elements were allocated between government and private sector according to the financing arrangements effective as of July 1, 1980.

Source: Based on UI administrative data

fixed share would result in improved government financial planning through a more stable spending pattern. If the government had paid 15 per cent of program costs from 1975 to 1979, its yearly expenditures would have been between \$500 million and \$700 million — a smaller and less volatile amount than under other arrangements (Table 12-1). And with a vested interest in the cost of all program elements, including administration, the government would be less open to criticism that it changed the program to increase private sector costs or that it ignored administrative efficiency. Public understanding of the cost sharing features would also be improved.

Along with other proposals contained in this report, the fixed government share becomes particularly appropriate. For example, a new single-phase design for the benefit structure discussed earlier makes current financing arrangements inapplicable, but adds weight to the proposal of a fixed share approach.

In addition, the administrative simplicity and improved public understanding of the fixed share approach would be further increased if all program costs were shared on this basis rather than individually allocated, as at present, between the government and private sector. A full sharing of costs would thus include sharing of fishermen's benefits, currently financed by the government, and of administration and special benefits, currently financed by the private sector. The Task Force therefore suggests that the government assume a fixed share of all program costs.

But the fixed share approach itself raises the question of where the federal share of program costs should be fixed. There is also the question of whether the fixed share might result in unstable private sector costs. This could lead to sudden large and possibly destabilizing changes in premiums, inhibiting the program's contribution to macro-economic stabilization in the larger sense. The first involves several considerations including the redistributive effects of the program. It is discussed below under that heading. The second is examined under the heading of macro-economic stabilization, which follows later.

Redistribution of income

While the tripartite financing of the UI program has been shown to have a number of advantages over total premium or tax financing, determining the size of government and private sector shares of the costs involves the issue of income redistribution.

It has been pointed out that an increase in the government's share of the program from its present level would raise the proportion of program funds gathered through the progressive vehicle of taxes and increase the program's redistributive effects. A greater tax-based program share would also reduce any disincentives to hire workers which may be implicit in payroll taxes in general and UI premiums in particular. (Payroll taxes raise the cost of employing workers compared to that of using capital. They may also inhibit employment growth in favour of more use of machinery and equipment.) A

higher federal share and less dependence on premiums would reduce this payroll tax effect and presumably reduce interference with employment growth.

In principle, it would then follow that the government's share of the program should be as large as possible, if the program's redistributive effects are to be maximized. But a move to more federal funding would occur at a time of increasing government spending restraint and against the recent background of reductions in the government's share. It is also not clear how much such a change would alter the already significant income redistribution effects of the present program and whether the redistributive improvements would justify the substantial turnabout in recent financing trends. For example, under a program completely financed by the government through taxes, it is estimated that net redistribution from high- to low-income people would increase by about \$500 million. This is less than a 25 per cent increase from the more than \$2 billion already redistributed in this way. Further, the interprovincial transfer of UI funds has remained fairly steady in recent years despite the changes in financing shares. This suggests that even a major increase in the federal share (from a 20 per cent to 100 per cent share) would not dramatically alter the balance going to lower income earners because of the overwhelming effect of the pooling of the risk principle, which is the major contributor to income redistribution.

On balance, the income redistribution gains among income groups and provinces resulting from a greatly increased federal share would not improve redistribution enough to justify the costs. These costs would be a complete contradiction of trends toward increasing government restraint. There would also be a potentially significant reduction in the direct private sector interest in the program — a central feature of tripartite financing discussed earlier. At the other extreme, too great a reduction in the current federal share could seriously weaken the government's interest in the program and its ability to play a lead role in program design and operation.

The cost implications of the program design changes suggested to this point have been calculated by the Task Force, and are presented in the next chapter. It has been estimated that these suggested changes would reduce the government share to 14.4 per cent of the program cost in fiscal 1983-84. This contrasts to the 18.6 per cent the government would assume if program provisions remained unchanged from the present.

While private sector costs should not be greatly increased, a reduced government share would provide the government with savings which could be re-allocated in accordance with the overall fiscal situation and expenditure priorities.

It is therefore suggested that a government cost share of about 15 per cent would appear reasonable. This share would maintain the federal government interest in the UI program as a whole, and, by producing savings would meet concerns regarding the overall cost-effectiveness of the program. Impact on income redistribution could be minimized, if at the same time the government were to direct additional funds for employment development purposes to high unemployment areas and people with particular employment problems.

The net redistributive effects of UI could also be improved if benefits were no longer taxable and premiums were not deductible. Ending tax deductibility of premiums would increase tax revenues gathered disproportionately heavily from high-income individuals whose tax rates are relatively high. All taxpayers, high and low earners alike, would pay more tax and thus "lose" to the government. But the higher earners would lose relatively heavily, sacrificing the larger tax savings they have enjoyed through the deduction of premiums. By itself, though, ending premium deductibility would not make a direct transfer from high- to low-income groups — both would pay more taxes. Redistribution would be enhanced if the government returned these tax gains to the taxpayers in the most progressive way possible. Making UI benefits non-taxable would do this. Since the incidence of taxes on benefits is highest among the low-income group where unemployment is concentrated, removing these taxes would benefit this group more than the high-income group, which has lower unemployment. So ending premium deductibility and the taxing of benefits would, in principle, achieve an increase in income redistribution.

In practice, however, eliminating these provisions would produce only a small improvement in net redistribution. An experiment with 1977 data showed that such a move would increase the income redistributed to low-income people by about ten per cent. This modest improvement, however, would bring with it several other problems.

In terms of taxation principles there are two considerations. First, taxing benefits is consistent with Canadian tax system principles, where any regular flow of income is taxable. UI benefits, a regular flow of income, replace earnings and should be taxable. Second, it is well

accepted that people with similar levels of income should pay similar taxes — a principle known as horizontal equity. Without the tax on benefits, claimants could have an annual income equal to or greater than that of a non-claimant, yet pay substantially less tax. A related issue is the effect that tax-free benefits would have on work incentives, since the benefits would be a much higher replacement of after-tax earnings than is now the case.

There would also be a few highly visible instances in which the equity of the move could be challenged. Ending taxes on benefits would greatly benefit the admittedly small number of high-income claimants whose real tax savings would be large due to their high marginal tax rates, clearly an unintended result.

For business, ending the tax deductibility of premiums would increase the cost of employing labour rather than using capital. This could inhibit employment growth while contributing to the greater use of capital. Moreover, employer premiums are a legitimate business expense and such costs have been recognized as being tax deductible. Even before the 1971 Act when taxes were not paid on benefits and employee premiums were not deductible, employer premiums were a tax deductible expense. It would be difficult to make changes which would treat employers' UI premiums differently from other business expenses.

Based on these considerations, the Task Force does not propose a change in the current tax status of premiums and benefits.

Benefit repayment provisions

The UI program was not designed explicitly as an income redistribution measure. But its role in pooling the costs and risks of unemployment (discussed earlier in this report) has resulted in a substantial redistribution of income to low-income people and families and to high unemployment regions. In spite of this substantial effect, however, many situations persist in which people or families with very high incomes receive UI benefits. This occurs despite their presumed capacity to bear more of the cost of unemployment than those with low incomes — a view already implicit in the existence of a maximum on insurable earnings and benefits.

This situation has in turn raised the issue of whether efforts should be made to limit the amount of UI benefits retained by these high-income people and families. As a result, beginning with the 1979 taxation year, claimants whose annual net incomes were over 1.5 times the maximum annual insurable earnings (over \$20,670 in 1979) had to pay back part of the benefits they received. This repayment was made on the person's

income tax return. The benefit repayment was either 30 per cent of the UI benefits received or 30 per cent of the person's net income over the threshold, whichever was less.

When the benefit repayment provision was developed, it was argued that the payment of UI benefits to people with high incomes is not an appropriate allocation of resources, particularly in times of constraint. It was also pointed out that the threshold net income was significantly above the average industrial wage. In equity terms, it was noted that high-income seasonal workers earning above the maximum weekly insurable earnings could likely pay less in UI premiums than year-round workers earning the same annual income. The maximum weekly insurable earnings would limit workers' weekly premium size. But seasonal workers would pay premiums only during their weeks of employment, while year-round workers would pay all year. Benefit repayment by high-income seasonal workers could contribute to equalizing the financial impact of UI among these workers.

The intention of benefit repayment was to reflect these concerns by reducing benefits paid to high-income workers. Although high-income seasonal workers were of particular concern in this context, they were not the sole focus of the provision. Data from the benefit repayment provision for 1979 show the benefit repayment has been successful in meeting this goal (Table 12-2). For example, construction trades, forestry and fishing are highly seasonal occupations, and make up about 22 per cent of UI claims. But among claimants who had to repay benefits, these occupations represented 42 per cent. This indicates that the seasonal industries were more than proportionally affected. For example, 19 per cent of 1979 claims were in the construction industry

Table 12-2

Benefit repayment provision—distribution by selected major occupational groups, 1979 (per cent)

Occupation	RePAYERS	RePAYMENT	All claims terminated
Construction trades	32.9	31.7	18.9
Fabricating & assembly	10.7	8.9	9.1
Transportation (shipping)	6.7	6.9	4.8
Managers	6.4	7.1	2.0
Machinery	6.3	6.3	2.8
Forestry	5.4	4.8	2.1
Clerical	3.6	3.8	16.3
Fishing (including both self-employed and employed fishermen)	3.5	6.6	1.4

Source: Based on UI administrative data

but 32 per cent of the benefits repaid also came from that industry.

Despite this success the provision has still had very little impact on UI income distribution. In 1979, only four per cent of claimants (86,000 people) were affected by the provision. Benefit repayments of only 0.5 per cent of the total benefit payout (\$27 million) were assessed.

The provision's impact has caused the virtually polarized positions taken on it. On one hand, a strong argument has been made for removing the provision on grounds that this would have minimal cost implications, but would increase administrative simplicity. More fundamentally, it is argued that eliminating the provision would reinforce UI as a social insurance program designed with no specific income redistribution objectives in mind.

On the other hand, it is argued that although UI was not designed to redistribute income, its operation as a social program, (partly financed by government out of general revenues) means that it cannot ignore the impact of the program on income redistribution. This argument states that the program should be particularly aware of the most obvious instances where its operation runs against the income distribution objectives of other government social programs and should seek to address these objectives.

In an environment of government spending restraint, moreover, concerns over the cost-effectiveness of UI expenditures argue for provisions to reduce the extent to which UI benefits are paid to those with little need of them. There are limits, however, on the means by which the program can be designed to strengthen its redistributive effects. It has been pointed out elsewhere, for example, that the use of dependency benefit rates or the financing of the program completely from taxes, while strengthening the redistributive aspect of the program, would create major administrative or conceptual difficulties. These would probably prohibit their use.

Without such measures, benefit repayment looks like a relatively easily administered option. It has the further advantage that it maintains the claimants' cash flow during the year, subject to an end-of-year reconciliation of UI benefits and income from all other sources. Admittedly, it can result in cases of inequity, such as when claimants who are still unemployed at tax time have to repay part of their benefits. But such difficulties are inherent in the tax system itself.

On balance, retention of the benefit repayment provision would appear justified on both cost-effectiveness and equity grounds. Furthermore, since improved cost-

effectiveness and increased equity constitute two major objectives of program redesign, means should be found to strengthen the impact of the benefit repayment provision. The Task Force has considered two ways of achieving this

- the provision could be applied to all claimants with net incomes over maximum insurable earnings (instead of to those with incomes over 1.5 times this maximum), and/or
- the benefit repayment rate could be raised from 30 per cent to perhaps 50 per cent.

These two options would have very different redistributive impacts and would raise a large number of concerns.

Lowering the threshold net income to maximum insurable earnings would yield significant additional benefit repayments in the 1983-84 fiscal year — a substantial redistributive effect. But it would also mean including a large number of claimants of about average income. This would dilute the focus of the provision on the high-income group and possibly cause hardship among some middle-income people.

Increasing the benefit repayment rate would still affect only four per cent of the total claimant population. It would only modestly increase the benefit repayment in the 1983-84 fiscal year.

While the financial impact of the latter option would be much less than that of the other, the higher benefit repayment rate would continue to focus clearly on high-income people and the risk of causing undue hardship would be reduced. For this reason, the Task Force feels that the increased benefit repayment rate is the preferable alternative.

Macro-economic stabilization

An earlier section has pointed out that, while UI contributes significantly to income stabilization through its capacity to redistribute income from the employed to the unemployed, its contribution to economic stabilization through its financing provisions is comparatively limited. Its stabilizing effects in this respect are restricted both by the basis on which its premium rates are established and by the limited variation possible in the private sector's UI account. Specifically, premium rates are set to strike a balance between premium rate stability and the ability of premiums to cover the private sector's costs, not on an annual basis but over a two- or three-year period.

However, recent changes in UI financing arrangements, along with the financing implications of program design changes suggested in this report, mean that the

program's capacity for stable premium rates could be significantly reduced. Specifically, ending threshold financing in 1980 meant that the private sector cost share would be more variable without the stabilizing changes in the government's participation. And proposals for a single-phase benefit structure with the government and private sector each paying a fixed share of total costs removes the cushion of the government's responsibility for regional extended benefits and in effect shares this with the private sector.

These changes suggest that a potentially more variable private sector share of program costs could change the way they are financed. If the increased variability is not to be reflected in premium rates, the program must accept swings in the deficit/surplus position of the private sector account which will be larger than in the past. Control of the variability of the private sector account balance, on the other hand, could mean large premium rate changes. This could well be destabilizing in macro-economic terms. If high unemployment and an associated large increase in the benefit payout were expected, for example, premiums might be increased in order to avoid a large deficit in the private sector account. Such a premium increase in a time of expected high unemployment could be destabilizing.

This tradeoff between premium stability and stability in the overall private sector share could be addressed in a number of ways. In the first place, return to the pre-1971 concept of a UI fund could be contemplated. Under this arrangement, UI premium rates remained unchanged for several years at a time, set for the most part independent of benefit payout. The government paid a fixed proportion of the private sector contribution. Excess revenue was used to generate a substantial cumulative surplus — the fund. The fund in turn supplemented benefit payout in years where payments exceeded revenues. Although the fund generally allowed premiums to remain constant through periods of slow growth, its purpose was not macro-economic stability per se, and it could at times be destabilizing.

Between 1957 and 1961, for example, economic growth, as measured by an increase in the Gross National Product (GNP), was well below the average of the preceding five-year period and unemployment well above average (Table 12-3). In this period, UI benefits more than tripled from the average of the preceding five years. Premium revenue increased by only one-third. The fund, which in 1956 had a substantial balance (\$850 million), provided almost \$700 million between 1957 and 1961 to make up the resulting difference between premiums and benefits. Although it helped to stabilize the economy, the fund was almost exhausted by 1961. To protect the fund's actuarial soundness, 1960

premium rates were increased sharply. Contributions in that year were 23 per cent higher than in 1959. In 1961, contributions grew by a further 20 per cent. These sharp rises in premiums, however, occurred at the same time as the unemployment rate peaked at over seven per cent — its highest postwar level until that time.

Although the fund contributed to macro-economic stability in the first years of the 1957-61 period, the large premium rate increase in 1960 clearly reduced the program's stabilizing effect significantly in the later years of the period.

Table 12-3
Comparison of indicators

	1952-1956	1957-1961
Growth in real GNP (annual average)	6.1%	2.8%
Average unemployment rate	3.7%	6.3%
Private sector contributions (annual average)	\$159m	\$213m
Benefit payout (annual average)	\$117m	\$405m

Source: Based on Statistics Canada, *National Income and Expenditure Accounts*; Statistics Canada, *Labour Force Survey* and UI administrative data

Use of the fund, therefore, did not always contribute to stabilization, although it did permit stable premium rates for relatively long periods. Before 1971, there were large accumulations of capital in the fund. These were necessary to sustain large drains on the fund in times of rising unemployment and increased benefit payouts. These large balances in the fund, however, brought strong pressure for lower premium rates or a more generous program. Large deficits, on the other hand, raised public concern over impending bankruptcy and pressure for higher premium rates (which, as described earlier about 1957-61, might be destabilizing).

In current program terms, furthermore, such a fund could mean accumulating several billions of dollars in assets, requiring additional resources and mechanisms to administer the fund. It is also unlikely that a fund of this size could be sustained without major pressures to put it to other uses. Were it loaned out for other uses, major destabilizing effects could be encountered during high unemployment if the loans were recalled to lower the fund through UI benefit payouts.

On these grounds, return to the use of a fund would not necessarily contribute at all times to economic stabilization, and could bring serious problems of its own. The Task Force therefore does not advocate this. Rather, the Task Force feels that modifications to the post-1971 practice of premium rate setting would be a more promising approach.

The 1971 UI Act called for an annual review of UI premium rates, with the accumulation of surpluses or deficits limited by statute. Under this scheme, premium rates have varied more than they did under the fund system, although some program features have reduced this premium variation somewhat. For example, the threshold financing formula and the government's responsibility for extended benefits both caused the government's share of program costs to fluctuate with economic conditions. This dampened to some extent the variation in private sector costs, reducing the need to vary premiums. Sudden premium rate changes were also avoided by a degree of reliance on cumulative surpluses or deficits in the private sector account. Although the UI Act required that premiums be set at a level that would reduce a surplus or deficit, premiums did not have to change to eliminate surpluses or deficits in a single year. Rather, premiums were adjusted gradually to eliminate surpluses or deficits over a longer period. In this longer period, there was a greater chance that economic conditions would change, bringing about changes in the level of benefits to help reduce the imbalance in the private sector account. This stability of premiums, together with variations in the surplus/deficit position of the private sector account, contributed somewhat to stabilization.

Since 1976, for example, declining premium rates and increases in unemployment and benefit payouts have limited the surplus (Table 12-4). In recent years it has also been reduced by annual deficits. A preoccupation with reducing the surplus more quickly would probably have led to more volatile premium rate changes. This might not have contributed to contracyclical stabilization as well as did the actual changes.

The post-1971 premium rate policy thus sought a reasonable balance between premium rate stability and

the actuarial integrity of the program. Compared to the operation of the fund, the system permitted more premium rate change and less variation in the private sector balance. Nevertheless, the practice of keeping premiums stable for two or three years, then changing them, perhaps considerably, could in some situations be quite destabilizing in the year of the premium change.

The sources of the future increased variability in the private sector UI account in the 1980s have been described. As noted, return to a fund concept to encourage stabilization has disadvantages of its own. An alternative approach, similar to a fund, has been put forward which would place the bulk of the stabilizing activity on the size of the surplus or deficit in the private sector account. One study¹ suggested that the basis for calculating benefit cost in a coming year be extended from its present statutory three years to perhaps five or six years — a period at least as long as a more extended business cycle. Under this approach, premium rates would be set to bring premium revenues into line with private sector costs over the period. Surpluses in the private sector account would be allowed to occur and grow. They would bear the brunt of the stabilization in years of high unemployment, when they would be depleted and even turned into deficits. Premium rates, based on average costs for the whole cycle, would change little and probably only in response to secular changes in unemployment.

This approach, however, would suffer the same disadvantages as the fund in terms of its wide variations in the private sector balance. In addition, it would suffer,

¹ J.R. Kesselman, *Assessment of Financing of the Unemployment Insurance Program*, pp. VII-9 and VII-10; a study prepared for the Employment and Immigration Commission, Ottawa-Hull: January 1981.

Table 12-4
Annual and cumulative surplus, premium rate and rate of growth of GNP (1972-1980)

	1972	1973	1974	1975	1976	1977	1978	1979	1980
Annual surplus									
(deficit) \$million	(388)	(350)	85	321	301	210	327	(91)	(644)p
Cumulative surplus ¹									
(deficit) \$million	(152)	(502)	(418)	(97)	204	414	741	650	6 p
Premium rate									
(per \$100)	.90	1.00	1.40	1.40	1.65	1.50	1.50	1.35	1.35
Per cent growth in GNP									
(1971 dollars)	6.1	7.5	3.6	1.2	5.4	2.4	3.4	2.7	0.1 p

p—preliminary

¹Balance in UI account as of December 31

Source: Based on UI administrative data and Statistics Canada, *National Income and Expenditure Accounts*.

like the present arrangements, from the difficulty of accurately forecasting unemployment rates and resultant program costs and premium levels. In fact, trying to look at likely unemployment five or six years into the future would appear more difficult than the current two- or three-year forecasts.

The Task Force feels that with the possibility of future increased variability in the private sector share, it would be worth exploring the extent to which the current premium rate setting mechanism might be amended to address this variation on a more frequent basis. Rather than retaining stable premiums for two to three years and then altering these, perhaps significantly, annual small changes in premium rates, seeking to reduce the variation in the private sector account, might be preferable. Such a change would decrease the likelihood that, following two or three years of stability, large premium rate changes could occur with possibly destabilizing effects. At the same time, small, more frequent premium rate changes would likely reduce the potential for large variations in the private sector account, reducing the risk of unplanned deficits and the impacts of these on government cash flow requirements needed to meet them.

Since the contribution of UI to economic stabilization has been shown to be relatively small, the future increased variation in the private sector share may lead to a need to improve the program's capacity to avoid large deficits or surpluses. Possibly at the expense of some stabilization, premium rates might be altered by small amounts, more frequently than at present, to control the size of the imbalances in the private sector account.

Experience rating of UI premiums

As described in an earlier section, experience rating is the practice of relating employers' UI premiums to their layoff experience. It seeks to ensure that employers who use unemployment relatively extensively to adjust to production changes pay for this use through higher premiums. In the US, where the practice is followed, it has been and continues to be the subject of extensive analysis and discussion, both of its objectives and its ability to achieve them.²

Experience rating has also had considerable study in Canada in past reviews of UI. Conclusions have varied about the effectiveness and feasibility of the practice.

While the 1962 Committee of Inquiry into the Unemployment Insurance Act rejected experience rating, provisions for it were put into the 1971 UI Act. But the government stance on the practice changed again in 1976, when the experience rating provisions of the 1971 Act were repealed. These changes imply that arguments thought convincing at one time were considered otherwise at other times — an indication of the difficulty of discussing the practice in a Canadian context.

The Task Force has approached experience rating by assessing the scheme against the major objectives of the Review for program redesign. So experience rating has been assessed in terms of its potential labour market effects, as well as its complexity, equity and cost.

Labour market adjustment effects

A major objective put forward for experience rating is that it helps induce firms to stabilize their employment and engage in sounder manpower planning. Successful firms would enjoy reduced layoffs and thus lower UI premiums, lower costs and prices, and a better competitive position than those less successful in stabilizing their employment. The impact of market forces on firms' operations would be strengthened — the most competitive would thrive and the least competitive would suffer. A more efficient allocation of human resources among firms and industries would result, with associated labour adjustments, particularly among those firms least able to stabilize their employment patterns.

However, the impact of experience rating on employment stability will largely depend on how much control employers actually have on their employment patterns. To the extent that an employer's work force is subject to national or even international forces beyond his/her control, his/her independent influence over employment patterns, and the effectiveness of experience rating, will be reduced. In Canada, this control may be weakened by the relative openness of the economy and its sensitivity to international economic forces. The extent of seasonal unemployment variations that persist, particularly in some regions, is also a factor. The effective leverage of experience rating on firms' employment stability may therefore be open to question.

The effectiveness of experience rating in promoting employment stability will also be influenced by the extent to which the premiums are experience rated. Where a high proportion of the program costs are financed through experience rating, the fluctuation in employers' premium rates may be large enough to be a real incentive to employers to stabilize employment. In the US employers pay the full private sector share of program costs by experience rated premiums. A large

² For example, the *Final Report of the United States National Commission on Unemployment Compensation*, Washington, D.C., July 1980, contains several studies on experience rating among its three separate volumes entitled, "Studies and Research".

proportion of overall program costs are thus financed through experience rating. Nevertheless, there has been concern about the proportion of costs that go “uncharged” (i.e. which cannot be attributed to individual employers via experience rating). In Canada, such uncharged costs would likely be even greater than in the US, because of the substantial portions of program costs paid by the government and, particularly, by employees. Further costs, such as sickness and maternity benefits, would also rest outside employers’ control and could not be financed on an experience rated basis. This could reduce the proportion of overall program costs financed by a Canadian experience rating scheme. It could also lower the system’s effectiveness in providing employers with an incentive to stabilize employment.

The potential negative effects of experience rating on employment should also be considered. For example, experience rating may inhibit employment growth by discouraging the hiring of new employees who might have to be laid off later. In times of rising unemployment, the resultant rise in UI premiums and interference with hirings could be particularly destabilizing, since they would likely focus most directly on those enterprises already encountering the greatest employment problems.

This provides grounds for questioning whether a Canadian experience rated system, introduced into current tripartite financing, would be effective in inducing employers to stabilize employment. American findings on the impact of experience rating in this regard have been mixed. It is likely that in Canada the effects of the scheme would be even weaker, due to the characteristics of the Canadian UI system.

Program complexity and costs

An important theme of the review has been to reduce the administrative complexity of the program. The introduction of experience rating would appear inconsistent with this mandate, since such a system would complicate the financing and administration of the program. In particular, the establishment and maintenance of detailed files on employers’ layoff records, the development and application of criteria for charging unemployment costs fairly to employers and the ongoing process of recalculating individual employers’ premium rates, are among the many dimensions of the system which would reduce public comprehension and increase administrative complexity and errors.

Although detailed studies of the anticipated start-up and operating costs of an experience rating system have not been done, estimates suggest it could take a number of years to develop such a system and make it

operational. This would imply substantial start-up costs. In addition, significant operating costs would likely result from things like greater data processing requirements, error rates, and appeals from employers.

The system would encourage employers to participate more in the control and administration of the program. To help keep their premium costs down, employers would likely report voluntary quitting more accurately, reduce layoffs and try to re-absorb laid-off employees more quickly. These moves could reduce both the number of UI claimants and the size of the benefit payout, resulting in savings to the program. It is not clear, however, whether these savings would offset the system’s increased operating and start-up costs.

On grounds of both program complexity and cost concerns, then, the introduction of experience rating is not consistent with the criteria on which the Task Force seeks to propose UI program design changes.

Equity concerns

It has been argued that experience rating would increase program equity for employers by making their premiums reflect their layoff experiences more accurately. This would reduce subsidies from stable to unstable employers which are implicit in present arrangements. However, to the extent that layoffs lie outside the control of the individual firm and depend upon broader market or seasonal forces, experience rating may in fact penalize employers in certain industries or areas, charging them for unemployment costs for which they are not responsible and reducing the fairness with which the system allocates program costs.

On an aggregate basis, furthermore, experience rating would raise the premiums in high unemployment industries and regions, to force them to pay a greater share of their “own” unemployment. Not only would this reduce or eliminate inter-industry subsidization, but it would also severely curtail UI’s role in pooling the costs of unemployment and its effects on inter-regional income transfer. Each province, in effect, would become responsible for financing a greater share of its own unemployment. So the role of UI in achieving desirable inter-regional transfers of income would be significantly reduced. This would place a greater share of overall UI costs on the high-unemployment, poor provinces and would alter the program’s capacity to pool the costs and risks of unemployment. On these equity grounds, then, the introduction of experience rating would not be consistent with the purposes of the UI review.

In summary, there does not appear to be compelling evidence that experience rating for the Canadian UI

program would make enough of a contribution to labour market operation to justify the system's potential negative impact on program complexity and cost or which would make up for the weakening of the program's role in achieving national social policy objectives. On these grounds, experience rating does not appear to make a positive contribution to making the UI program more appropriate to the needs of the 1980s.

In this regard, it should also be noted that a potential positive feature of experience rating — reduction of the implicit subsidy from low- to high-unemployment sectors — will in some measure be achieved by the more

restricted entrance requirements and benefit structure proposed elsewhere in the report. Under these provisions, employers (especially seasonal ones) might have to extend the length of the jobs they provide, in order to attract employees, who would seek longer duration employment to qualify for UI. In this case, premiums paid by the sector would increase, while benefits received could fall through reduced benefit durations. The effective subsidy to these sectors from others, therefore, would be reduced, not by higher premium rates, but by the more fundamental and more positive vehicle of stronger employment attachments in these sectors.

Chapter Thirteen

Summary and Indicative Package

When it was introduced in 1940, Unemployment Insurance was intended to protect workers in Canada from loss of income due to unemployment. Providing people with money and time to look for other jobs meant it also contributed to a major labour market objective by helping them become re-employed. These twin objectives of income protection and labour market adjustment were apparent from the start and were clearly reflected in the program's establishment in tandem with the National Employment Service.

Many changes in the UI program have occurred in the last forty years in response to economic developments or changes in social mood. But the program has kept a focus on its income protection and labour market adjustment objectives. As social insurance, UI plays a unique role in maintaining the economic security of workers affected by layoffs or plant closures. Benefits are paid to eligible workers automatically and as of right, free of the stigma of social assistance. UI also helps these workers to become productively re-employed. With no immediate economic pressures to accept any job, UI lets them make a systematic search which is more likely to lead to a job appropriate to their skills and experience. The existence of UI also helps the labour market adjustment process by reducing the pressures on government to maintain unprofitable enterprises simply to protect the workers.

The discussion has also shown how UI contributes to the broad government objectives of income redistribution and economic stabilization, not explicit objectives of the UI program itself. By pooling the costs and risks of unemployment, UI brings about an income transfer from the employed to the unemployed. Because the unemployed are concentrated in certain income groups and regions, the income redistribution effects of UI are visible in both areas. In turn, this income redistribution largely maintains the expenditures of those involved, sustains aggregate demand and dampens the further spread of unemployment.

The analysis has shown that economic and employment growth in the 1980s will generate both continued

employment dislocations and the need for significant readjustment to take advantage of emerging labour market opportunities. A more slowly growing labour force, with geographical, industrial and occupational differences in growth rates, will place more emphasis on redeployment of the labour force. Women, the major source of labour force growth, will have to play an increasingly important role in meeting the skill needs of the economy and in contributing directly to family income. The need for labour market adjustments on a national scale will increasingly challenge labour market policies. Workers who lose their jobs will still need UI's income protection to cushion the effects on their economic security. As a labour market measure, UI will also have to support the redeployment of Canada's workers, to use them most productively.

It has also been shown that although UI's income protection capacity gives it a major social security role, its contribution to labour market adjustments may be weakened by its impact on things like work incentives and mobility. The Task Force has found that to improve the program's ability to operate in the coming decade, its contribution to labour market objectives must be strengthened. Specifically, it has concluded that the barriers to labour market adjustment now present in the program design must be removed or reduced.

The program's extensive legislative changes in the late 1970s also show the danger of pursuing one program redesign objective — like cost control — without concern for other areas. (These include administering the program effectively, the program's equity or fairness and its labour market implications.)

These discussions of the broad directions for program change and those other factors which merit careful consideration have had specific implications for program redesign. In examining individual program elements, the Task Force has tried to identify design changes which would

- reduce the program's complexity to ease administration and public understanding,

- eliminate specific inequities in the treatment of claimants,
- produce a positive impact on the labour market, and
- increase the program's cost effectiveness in an environment of government spending restraint.

None of these changes, however, could be allowed to detract significantly from the program's basic income protection role.

In approaching its work, the Task Force has been convinced, as indicated earlier, that there has for some time been a developing consensus, among governments, employers, trade unions and other organized groups in Canadian society, in favour of fundamental change in the UI program. It has been aware, however, of the wide range of opinion that can be found on the subject. That range cannot be easily summarized. It is nonetheless clear that, although some would favour a significant increase in the level and duration of benefits, others would favour a significant decrease. Some would advocate the status quo, arguing that apparent problems are the result of too-frequent change in the recent past and may yet be susceptible to administrative solutions. Some would not support the status quo but would like to limit change to a selective group of amendments relating to problems of equity, such as those pertaining to maternity benefits. Others would like to go further but would have differing views about the most effective combination of entrance requirements and benefit provisions. There is probably a case to be made for any one of these options — and there is no doubt that the relevant arguments will be put forward during the planned process of consultation. The government will undoubtedly wish to consider carefully all of these arguments before putting legislative proposals forward — and Parliament will undoubtedly wish to do the same before taking action.

The status quo is clearly one option. It should be understood, however, that even this option would require statutory change. As things now stand, the present 10-14 week variable entrance requirement, extended by Parliament in June 1980, will lapse in June 1982 — and a uniform 14 week requirement will become operative nationally. With it will remain the special requirements for repeaters, new entrants and re-entrants and for maternity and sickness benefits.

Change designed to deal with only a selected group of problems is another option. The government or Parliament may conclude that, on balance, a limited approach of this kind would make sense.

And, finally, of course, there are other options that would encompass comprehensive change but settle on a package characterized by a higher or lower level of cost than that suggested in this report. To facilitate consultation on the best direction for program change, the Task Force has grouped into one "indicative" package the conclusions reached in previous chapters. The features of this package have been selected from among those which, in the judgment of the Task Force, would best accomplish the basic objectives set out for the review.

The indicative package

To reduce program complexity and increase public understanding, the Task Force suggests

- eliminating the special entrance requirements for new entrants, re-entrants, repeaters and special benefits (sickness, maternity and retirement),
- adopting a single entrance requirement of 15 to 20 weeks based on the regional rate of unemployment,
- reducing the three-phase benefit structure to a single phase based on weeks worked and the regional unemployment rate,
- streamlining the maternity provisions by eliminating the "magic 10" and Section 46,
- eliminating the minimum insurability rules to provide more universal coverage and to ease decisions on what work is insurable, and
- disregarding all earnings on separation for premium and benefit purposes.

In addition to these direct program changes, the Task Force also suggests establishment of a joint Commission-private sector task force to investigate in detail the best means of restructuring the current system under which employers report insurable employment and earnings. It is expected that the results of this task force, in the longer term, would make an extremely important contribution to reducing the administrative complexity of the reporting system, from both Commission and employer viewpoints.

To increase the equity of treatment of claimants, the Task Force suggests

- eliminating the higher entrance requirements for new entrants, re-entrants, repeaters and special benefits,
- maintaining the regional differentiation in the basic entrance requirement,
- keeping the regionally differentiated benefit structure,

- removing limits on the availability of regular, sickness and maternity benefits, to permit them to be drawn at any time in the benefit period,
- extending the application of maternity benefits to adoptive parents,
- eliminating the three-week special severance benefit,
- ensuring universal coverage under the Act for all workers with a contract of service by eliminating the minimum insurability rules,
- ending the inequitable treatment of earnings on separation by eliminating the deductability of all earnings on separation,
- keeping equitable UI protection up to the maximum insurable earnings ceiling by ensuring that the ceiling truly represents the average weekly earnings in Canada,
- raising the benefit repayment rate on high income claimants from 30 to 50 per cent to increase the redistributive effects of the program.

To encourage a positive impact on the labour market, the Task Force suggests changes to lengthen work attachments, encourage job search and reduce some of the program's negative impacts on worker mobility. These are accompanied by a proposal that, in high unemployment areas, there be a shift in emphasis from income transfer to labour market development. Specific changes suggested include

- adopting a higher entrance requirement for all claimants for all benefits based on the regional rate of unemployment,
- reducing the duration of benefits, particularly for claimants with shorter job attachments (this and the higher entrance requirement reduce the program's extensiveness and should enhance worker mobility),
- reducing the spread of benefits available in low and high unemployment areas, to decrease the program's potential negative impact on mobility,
- increasing penalties for people who quit their jobs without just cause to encourage stronger job attachments,
- improving the income security of working women by keeping one benefit rate, eliminating the re-entrant provisions and enhancing maternity benefits, and
- reducing the cycle of dependency on UI for people in high unemployment areas by directing funds towards the establishment of long-term jobs.

To increase the program's cost effectiveness, the Task Force proposes changes which achieve a modest saving in program costs and provide an opportunity for a small reduction in the premium rates for employees and employers. At the same time, the Task Force suggests that governments place a greater focus on economic development and job creation in high unemployment areas.

The suggested design changes can be combined into one package to illustrate the possible shape and cost of the UI program if all suggested changes were made. The package and its impact on program costs are summarized in Table 13-1.

In examining the package, it is important to look at the financial impact as a whole since the cost implications of one program feature may be offset by others. Overall, the package would result in a modest net saving, estimated to be \$220 million. The government share of the program would be reduced by about \$295 million, which could be reallocated in accordance with overall fiscal and expenditure priorities including employment development.

Individual package elements have significant effects on private and public sectors costs, as well as important differences in their financial impact on men and women. The 15- to 20-week variable entrance requirement and the regionally differentiated, single-phase benefit structure would result in cost savings of about \$175 million and \$225 million in the 1983-84 fiscal year. These savings would reduce government costs in particular, since they would mainly come from lower expenditures in those extended benefits paid for by the government.

Major private sector savings come from the increased penalties for voluntary quitting. Savings from these penalties are concentrated primarily in the current initial benefit phase, which is paid for by the private sector. The penalties would reduce private sector benefit costs by an estimated \$150 million. The variable entrance requirement and the higher benefit repayment would produce further private sector cost reductions of about \$50 million and \$28 million. But these cost savings would be more than offset by a higher benefit payout from the private sector account. This higher payout includes an estimated \$140 million more from the streamlined and expanded maternity benefits and about \$133 million more through the revised determination of maximum weekly insurable earnings.

The proposed provisions would have a different impact on benefits paid to men and women. Overall benefits to men would be reduced by an estimated \$230 million in the 1983-84 fiscal year. Benefits to women would increase by \$10 million. The changes in the

Table 13-1

Indicative package, estimated financial impact (\$ millions in 1983-84)

Package Elements	Impact by				
	Sex		Private Sector		Total
	Male	Female	(Employee/ Employer)	Government	
1. 15- to 20-week VER	- 163.5	- 11.5	- 50.0	- 125.0	- 175.0
2. Regionally different single-phase benefit structure	- 133.4	- 91.6		- 225.0	- 225.0
3. Doubled period of disqualification for voluntary quitting	- 115.6	- 74.4	- 150.0	- 40.0	- 190.0
4. Streamlined maternity benefits extended to adoptive parents		+140.0	+140.0		+140.0
5. Elimination of retirement benefit	- 15.0	- 5.0	- 20.0		- 20.0
6. Replacement of minimum insurability with minimum qualification	+ 3.4	+ 8.6	+ 10.0	+ 2.0	+ 12.0
7. Uniform treatment of earnings on separation	+ 47.1	+ 29.9	+ 77.0		+ 77.0
8. Revised formula for determining maximum insurable earnings	+147.2	+ 9.8	+133.0	+ 24.0	+157.0
9. Increased benefit repayment rate of 50%	- 32.0	- 1.0	- 28.0	- 5.0	- 33.0
Total Impact on Benefits (Net of Overlap)	- 230.4	+ 10.4	+115.0	- 335.0	- 220.0
10. Refinancing of UI costs (government pays 15% of total program costs)			- 40.0	+ 40.0	
Net impact on benefits	- 230.4	+ 10.4	+ 75.0	- 295.0	- 220.0

Note: These estimates assume a national unemployment rate of 7.5 per cent and total benefit expenditures of \$6.5 billion in the 1983-84 fiscal year. It should be noted that these estimates are extremely sensitive to the assumptions made, and will change if the assumptions themselves are altered. The micro-simulation model used in assessing the financial impact of the indicative package is described in Appendix VI. Further details on the specific assumptions the model has used in this assessment are presented in Appendix VII.

variable entrance requirement, the regionally different benefit structure and the increased penalties for voluntary quitting all reduce benefits to men much more, in absolute terms, than to women.

These three changes combined reduce benefits to men by about \$412 million, but lower women's benefits by only \$177 million, without taking account of overlap. These different impacts occur not only because more men are claimants and their benefit rates are significantly higher, on average, but also because of some labour market differences. The generally higher average earnings of men also mean that more of them will receive the increased benefit payments associated with the increased maximum weekly insurable earnings. Men would get about \$147 million in increased benefit payout from this change. For women, the major addition to benefit payout comes from the streamlined and

extended maternity provisions, which would increase their benefits by an estimated \$140 million.

Although private sector benefit costs would rise by about \$115 million, refinancing in the form of a fixed 15 per cent government share would subtract \$40 million, resulting in a net increase of \$75 million in the private sector's share of benefits (Table 13-2). The overall position of the private sector account, however, would be in surplus since the revised determination of maximum weekly insurable earnings and the new minimum qualification would produce an increase in premium revenues. These increased revenues would greatly exceed the private sector's increased benefit expenditures. They would contribute, for the private sector, to a surplus of premium revenue over benefits estimated at \$206 million in the 1983-84 fiscal year. This in turn could lead to a slight reduction in private sector premium rates.

Table 13-2

Estimated financial impact of indicative package on private sector and government accounts (\$ millions in 1983-84)

	Impact by	
	Private sector	Government
Net impact on benefits	- 75.0	+295.0
Additional premiums due to the revised maximum and minimum insurable earnings (at a premium rate of \$1.80)	+281.0	
Surplus generated by the indicative package if no reduction in premiums	+206.0	
Reduction in premiums due to surplus generated by indicative package	- 206.0	
Overall impact	—	+295.0

Note: These estimates assume a national unemployment rate of 7.5 per cent and total benefit expenditures of \$6.5 billion in the 1983-84 fiscal year. It should be noted that these estimates are extremely sensitive to the assumptions made, and will change if the assumptions themselves are altered. The micro-simulation model used in assessing the financial impact of the indicative package is described in Appendix VI. Further details on the specific assumptions the model has used in this assessment are presented in Appendix VII.

In spite of this reduction, those earning above the maximum weekly insurable earnings ceiling would pay slightly more in premiums. However, people who earn below the maximum, many of whom are women and residents of high unemployment regions, would pay less premiums.

In summary, the main objective of the package and of the report itself is to encourage discussion on changes in the direction and design of UI in the 1980s. The outcome of these discussions is expected to form the basis for amendments to the Unemployment Insurance program.

APPENDIX I

Terms of Reference

The Unemployment Insurance Review Task Force

Main responsibilities

In summary, the main responsibilities of the Unemployment Insurance Review Task Force are

- to trace the evolution of the UI program in the four decades, 1940-1980,
- to examine and assess the impact of UI on the Canadian economy and on Canadian society, particularly since 1971,
- to cooperate with the Labour Market Development Task Force in the preparation of an analysis of the labour market environment in the recent past, present and future,
- to analyse specific areas in which there are issues and problems, arising from the current provisions of the UI legislation, in terms of inequities, impact on the labour market, complexity and resulting difficulties in administration, and
- to identify options for change in the program, with a view to establishing for the 1980s a more coherent framework of objectives related to social insurance principles and designed to facilitate the matching of unemployed workers with available jobs.

Issues to be addressed

More specifically, within the ambit of its main responsibilities, the Task Force will address itself to a number of specific issues.

Evolution

The Task Force will examine and report on the original philosophy of the program and on modifications in its role and objectives over the four decades, including major design changes with respect to coverage and terms and conditions of benefit entitlement. In doing so, it will endeavour to describe the evolution in relationship with the Canadian income protection system in general. Particular attention is to be paid to program changes since the 1971 legislation.

Impact

The Task Force will examine and assess the impact of the current UI program

- on income distribution and redistribution in terms of both the individual and the family,
- on interprovincial fiscal transfers,
- on economic and income stabilization,
- on labour productivity and mobility,
- on patterns of preference between continuing paid employment and other forms of activity,
- on wage rates, costs of production and prices.

Labour market environment

The following areas relating to the Canadian labour market environment will be examined in cooperation with the Labour Market Development Task Force.

- the changing balance of cyclical, seasonal, structural and frictional unemployment,
- the regional distribution of employment and unemployment,
- the changing composition of the unemployed,
- the increase in multiple earner and single parent families,
- the changing role and occupational distribution of women in the labour force,
- the coexistence of labour surpluses and skill shortages,
- the development of part-time employment,
- the process of industrial adjustment.

Problem areas

The Task Force will analyse the nature and severity of problems in the following areas

- the determination of insurable employment,
- the determination of insurable earnings,

- entrance requirements, including the variable entrance requirement for regular claimants, the special entrance requirement for new entrants, re-entrants and repeaters and the entrance requirement for sickness, maternity and retirement benefits,
- the treatment of claimants who unreasonably refuse to accept jobs, voluntarily quit jobs without just cause or are fired for misconduct,
- the benefit structure, including the schedule of entitlement and the rate of benefit,
- the regional aspects of the program, including the role and impact of regional extended benefits,
- the coverage of, and the benefits provided for workers in highly seasonal occupations,
- the use of unemployment rates in the determination of unemployment insurance benefit entitlement,
- the terms and conditions of sickness and maternity benefits,
- the treatment of the earnings of claimants,
- the financing of the program, including the tax status of premiums and benefits,
- the legislative provisions prescribing penalties,
- the linkages of the UI program with other labour market programs, with particular reference to the process of labour market adjustment.

Other issues and problems may be identified during the course of the review and will have to be examined by the Task Force as time and resources permit.

In examining issues and problems, particular attention is to be placed on the extent to which the complexities of program design impede the efficiency and effectiveness of program administration.

Options for change

In identifying options for change, the Task Force will, among other things, consider

- developments in other elements of the Canadian income protection system, including measures designed to deal with the process of industrial adjustment,
- representations made by Members of Parliament, the private sector and provincial and territorial governments,

- experience gained under other UI programs, including a number of state programs in the United States and a number of national programs in Western Europe,
- evolving federal-provincial relations, and
- implications for unemployment insurance costs, the numbers and categories of claimants by age and sex, interprovincial fiscal transfers and social assistance expenditures.

Schedule, method of operation and process of consultation

The work will be carried out in three broad phases. During the first, the Task Force will undertake the basic analyses required by the terms of reference. During the second, it will identify options for change.

The findings of the Task Force in respect of these two phases will be submitted to the Minister, through the Chairman of the Canada Employment and Immigration Commission, not later than December 31, 1980.

In the first phase, the Task Force will draw on and update work which has already been carried out. It will also seek professional advice and assistance from a variety of sources. In the second, it will take into account recommendations for change which have already been made, particularly by representatives of the private sector and the provinces. It is not envisaged that, during these phases, there will be a formal consultative process.

The third phase will include a systematic process of consultation with representatives of the private sector, the provincial governments and other interested parties. Early in 1981, a discussion paper, setting forth the basic analyses and identifying options for change, will be made public. It is expected that hearings by a Parliamentary Committee and federal-provincial meetings will provide a full opportunity for all interested parties formally to present their views and recommendations. During this phase, it may be necessary to undertake additional analyses and to consider further options for change.

The third phase, as outlined, will provide the bases for consideration of amendments to the Unemployment Insurance Act, to be introduced into Parliament either in late 1981 or early 1982.

APPENDIX II

A Brief Description of the Unemployment Insurance Program in 1981

Objectives

UI in Canada is a program national in scope and with dual objectives:

- to provide income protection for workers suffering temporary income interruptions,
- to facilitate the best possible match between unemployed workers and available jobs.

Coverage

The program insures the employment of virtually all paid workers in the labour force. These workers are referred to as being in insurable employment. The main exclusions from coverage are those 65 years of age and over, the self-employed (except fishermen who are covered by special arrangement) and those who work less than 15 hours per week and earn less than 20 per cent of the maximum weekly insurable earnings (\$63 in 1981).

Current estimates are that approximately 97 per cent of paid workers are insured under the program.

Eligibility requirements

To qualify for benefit, claimants have to have suffered an interruption of earnings from employment and accumulated a specified number of weeks of insurable employment.

In general, the interruption of earnings for the insured person who ceased work by reason of sickness or pregnancy occurs in the week when normal employment earnings drop below 60 per cent of normal weekly insurable earnings from that employment. For others, it occurs when, following separation from employment, the insured persons have a period of seven days during which no work is performed and no earnings arise from that employment.

The basic entrance requirement varies from 10 to 14 weeks of insurable employment in the qualifying period of up to 52 weeks, depending on the unemployment rate in the UI economic region in which the claimant resides. The number of weeks required is determined as shown in the table.

Regional Rate of Unemployment	Weeks of Insurable Employment Required
over 9.0%	10
over 8.0% to 9.0%	11
over 7.0% to 8.0%	12
over 6.0% to 7.0%	13
6.0% and under	14

Claimants who have received benefits during the qualifying period are program repeaters. To qualify, they require the number of insurable weeks shown in the table.

Weeks of
benefits
paid/payable
in qualifying
period

Weeks of insurable employment
at regional unemployment rate

	6.0% and under	over 6.0% to 7.0%	over 7.0% to 8.0%	over 8.0% to 9.0%	over 9.0% to 11.5%
10 and under	14	13	12	11	10
11	14	13	12	11	11
12	14	13	12	12	12
13	14	13	13	13	13
14	14	14	14	14	14
15	15	15	15	15	15
16	16	16	16	16	16
17	17	17	17	17	16
18	18	18	18	17	16
19	19	19	18	17	16
20 and over	20	19	18	17	16

The repeater provision does not apply in regions with unemployment rates over 11.5 per cent.

Claimants who had less than a combined total of 14 weeks of insurable employment, UI benefit or other weeks prescribed by regulation in the 52-week period preceding the qualifying period, are new entrants or re-entrants to the labour force. They are required to have 20 weeks of insurable employment in the qualifying period.

The qualifying period of up to 52 weeks may be extended to a maximum of 104 weeks if the claimant was prevented from working because of sickness, pregnancy, incarceration, attendance at an approved training course or receipt of worker's compensation for temporary total disability.

The insurable weeks and insurable earnings are reported by the employer on the Record of Employment, which the employee must deposit at the time of application for benefit.

Benefits

Benefits are paid during a benefit period generally of up to 52 weeks and after a two-week waiting period has been served.

Employment earnings in the waiting period are deducted from the first three weeks of benefits payable. Deductions made for each week in the waiting period do not exceed the benefit rate.

Income received as sick or maternity leave or from any group wage-loss insurance plan during sickness or maternity is not taken into account as earnings in the waiting period.

The 52-week benefit period may be extended to a maximum of 104 weeks if the claimant was not entitled to benefits because of incarceration or receipt of worker's compensation for temporary total disability.

Regular benefits are payable in three successive phases.

- Initial Benefit — one week of benefits for each week of insurable employment (maximum 25 weeks in the 52-week benefit period).
- Labour Force Extended Benefit — one week of benefits for every two insurable weeks in accordance with the table.

Weeks of insurable employment in claimant's qualifying period	Maximum labour force extended benefit payable
27 or 28 weeks	1 week
29 or 30 weeks	2 weeks
31 or 32 weeks	3 weeks
33 or 34 weeks	4 weeks
35 or 36 weeks	5 weeks
37 or 38 weeks	6 weeks
39 or 40 weeks	7 weeks
41 or 42 weeks	8 weeks
43 or 44 weeks	9 weeks
45 or 46 weeks	10 weeks
47 or 48 weeks	11 weeks
49 or 50 weeks	12 weeks
over 50 weeks	13 weeks

- Regional Extended Benefit — two weeks of benefits for every 0.5 per cent that the regional unemployment rate exceeds 4.0 per cent in accordance with the table.

Regional rate of unemployment	Maximum regional extended benefit payable
over 4.0% – 4.5%	2 weeks
over 4.5% – 5.0%	4 weeks
over 5.0% – 5.5%	6 weeks
over 5.5% – 6.0%	8 weeks
over 6.0% – 6.5%	10 weeks
over 6.5% – 7.0%	12 weeks
over 7.0% – 7.5%	14 weeks
over 7.5% – 8.0%	16 weeks
over 8.0% – 8.5%	18 weeks
over 8.5% – 9.0%	20 weeks
over 9.0% – 9.5%	22 weeks
over 9.5% – 10.0%	24 weeks
over 10.0% – 10.5%	26 weeks
over 10.5% – 11.0%	28 weeks
over 11.0% – 11.5%	30 weeks
over 11.5%	32 weeks

- The overall maximum is 50 weeks of benefits in the 52-week benefit period.
- For the purposes of the entrance requirements and the payment of benefits, 46 UI economic regions are in use as of May, 1981.
- Sickness benefits are payable to claimants who prove incapacity by way of a medical certificate. Where the interruption of earnings is due to sickness, only claimants with at least 20 insurable weeks are entitled.

- A maximum of 15 weeks of sickness benefits are payable as part of the maximum of 25 weeks of initial benefits.
- Maternity benefits are payable to claimants who prove pregnancy by way of a medical certificate. Only claimants with 20 insurable weeks are entitled. In addition, they must have 10 insurable or other weeks prescribed by regulation in the 20-week period surrounding conception.
- A maximum of 15 consecutive weeks of maternity benefits are payable as part of initial benefits. These must be the first 15 weeks of initial benefits and may commence as early as eight weeks before the expected week of confinement for birth and end as late as 17 weeks after birth.

(Note: A pregnant woman who does not qualify for maternity benefits is not entitled to any benefits in the period starting eight weeks before and ending six weeks after the week of confinement.)

- The combination of sickness and maternity benefits cannot exceed 15 weeks.
- A special severance benefit of three weeks is payable in lump sum to those who have attained the age of 65 years and have 20 insurable weeks in the qualifying period.
- Benefits may also be paid to claimants undertaking approved training, or participating in approved job creation projects or work sharing agreements. The benefit periods and weeks of benefits payable in these cases can exceed the usual maxima.
- Claimants are disqualified from receiving benefits for up to six weeks for such misdemeanours as quitting jobs without just cause, being fired for misconduct or refusing suitable employment.
- Claimants who fail to prove their entitlement for reasons such as non-availability for work are not entitled to benefit for as long as such a condition exists.
- In addition, benefits are not payable to claimants involved in labour disputes.
- The benefit rate is 60 per cent of average insurable earnings in the qualifying weeks. These are the last 20 weeks of the qualifying period for those with 20 or more weeks of insurable employment or all weeks in the qualifying period in the case of those with less than 20 insurable weeks.
- The maximum weekly benefit amount in 1981 is \$189.
- UI benefits are taxable for income tax purposes.

- Decisions affecting benefits may be appealed in the first instance to a Board of Referees and in the second instance to an Umpire of the Federal Court.
- Special provisions affect benefits for fishermen. For example, self-employed fishermen can draw the special fishing benefit only from November 1 to May 15.
- A portion of UI benefits may have to be repaid by some claimants. If the claimant's net income (including UI) for income tax purposes exceeds \$24,570 in 1981, the claimant will be required to repay up to 30 per cent of the UI benefits received in 1981 when the 1981 income tax return is filed.

Effect of earnings on benefits

- All earnings from employment over 25 per cent of benefit rate received during the period for which benefits are payable are deducted from benefits. This is known as the allowable earnings rule.
- All earnings received from employment while receiving sickness or maternity benefits are deducted from benefits.
- Monies received such as vacation pay, wages in lieu of notice and bonuses and gratuities other than as a result of a layoff or separation are earnings and have the effect of reducing or postponing benefits.
- Monies received such as disability or retirement pensions, relief grants, non-group sick plan payments, supplemental unemployment benefits, severance pay or bonuses and gratuities as a result of a layoff or separation are not earnings for benefit purposes and do not reduce or postpone benefits.

Financing

- The UI program is financed on a tripartite basis through contributions from employer and employee premiums and the federal government.
- The basic employee premium rate for 1981 is \$1.80 for each \$100 of weekly insurable earnings. The employer premium rate is 1.4 times the employee rate.
- The maximum weekly insurable earnings in 1981 is \$315. It is increased annually in accordance with the rate of increase in wages and salaries averaged over the most recent eight-year period.
- Premiums are tax deductible.
- Premium revenues absorb the cost of benefits in the initial and labour force extended phases, sickness, maternity, special severance and work sharing benefit as well as the costs of administering the UI Act which includes the National Employment Service

- The federal government contribution absorbs the cost of regional extended benefits, the cost of benefits for self-employed fishermen that is in excess of premiums from that employment and the cost of extended benefits for those undertaking approved training or participating in approved work sharing or job creation projects.

Organization and administration

- In general, the Minister of Employment and Immigration is responsible for the UI Act and the

Canada Employment and Immigration Commission is the corporate body responsible for administering the UI program.

- Special arrangements exist, however, for the collection of premiums and the determination of insurable employment as well as the benefit repayment provision. These are the responsibility of the Minister of National Revenue and are administered by Revenue Canada, Taxation.

APPENDIX III

UI Regulations: Earnings for Benefit Purposes (April, 1981)

Determination of Earnings for Benefit Purposes

Sec. 57. (1) In this section,

“income” means any pecuniary or non-pecuniary income that is or will be received by a claimant from an employer or any other person, and

“employment” means

- (a) any employment, whether insurable, not insurable or excepted employment, under any express or implied contract of service or other contract of employment,
 - (i) whether or not services are or will be performed by the claimant for any person, and
 - (ii) whether or not income received by a claimant is from a person other than the person for whom services are or will be performed, and
- (b) any self-employment whether on the claimant’s own account or in partnership or co-adventure.

(2) Subject to this section, the earnings to be taken into account for the purpose of determining whether an interruption of earnings has occurred and the amount to be deducted from benefits payable, under section 26, subsection 29(4) and subsection 30(5) of the Act and for all other purposes related to the payment of benefit under Part II of the Act, are

- (a) the entire income of a claimant arising out of any employment;
- (b) temporary partial workmen’s compensation payments received or to be received by a claimant for an illness or injury;
- (c) the amount of payments a claimant has received or, upon application, is entitled to receive under a group sickness or disability wage loss indemnity plan or a paid sick or maternity leave plan; and
- (d) notwithstanding paragraph (3)(b) but subject to subsection (2.1), the amount of payments a claimant has received or, upon application, is entitled to receive from motor vehicle accident insurance provided under or pursuant to a provincial law in respect of the actual or presumed loss of income from employment due to injury if the benefits paid or payable under the Act are not taken into account in determining the amount that the claimant receives or is entitled to receive from such insurance.

(2.1) When, subsequent to the week in which an injury referred to in paragraph (2)(d) occurs, a claimant has accumulated the number of weeks of insurable employment required by section 17 of the Act, the payments mentioned in paragraph (2)(d) shall not be regarded as earnings.

(3) That portion of the income of a claimant that is derived from any of the following sources is not earnings for the purposes mentioned in subsection (2),

- (a) disability, military or retirement pensions arising out of an employment or permanent settlement workmen’s compensation payments;
- (b) payments under a sickness or disability wage-loss indemnity plan that is not a group plan;
- (c) relief grants in cash or in kind;
- (d) payments received under a private supplemental unemployment benefit plan where such plan has been approved, for the purposes of this paragraph, by special or general directions of the Commission;
- (e) retroactive increases in wages or salary paid after termination of employment;
- (f) severance pay, retirement payments and retirement leave or accumulated sick leave credits or payments in lieu thereof; and
- (g) bonuses and gratuities payable as a result of a lay-off or separation from employment.

(4) For the purposes of paragraphs (2)(c) and (3)(b), a sickness or disability wage-loss indemnity plan is not a group plan if it is a plan that, in the opinion of the Commission,

- (a) is not related to a group of persons who are all employed by the same employer;
- (b) is not financed in whole or in part by an employer;
- (c) is voluntarily purchased by the person insured;
- (d) is completely portable;
- (e) provides constant benefits; and
- (f) has rates of premium that do not depend on the experience of a group referred to in paragraph (a).

(5) For the purposes of subsection (4) “portable”, in respect of any plan referred to therein, means that benefits to which an employee covered thereby is entitled and the rate of premium he is required to pay while employed by an employer will remain equivalent if he becomes employed by any other employer.

(6) For the purposes of subsection (2), "earnings" includes,

- (a) in the case of a claimant who is not self-employed, only that amount of his income remaining after deducting
 - (i) expenses incurred by him for the direct purpose of earning that income, and
 - (ii) the value of any consideration supplied by him,
- (b) in the case of a claimant who is self-employed in farming, only thirty-five per cent of his gross returns from,
 - (i) farming transactions, and
 - (ii) any subsidies he receives under any federal or provincial program,
- (c) in the case of a claimant who is self-employed other than in farming, only the amount remaining from his gross returns from that employment after deducting the operating expenses, other than capital expenditures, incurred therein, and
- (d) in any case, the value of board, living quarters and other benefits of any kind received by a claimant from or on behalf of his employer in respect of his employment.

(7) Subject to subsection (8), the value of the benefits referred to in paragraph (6)(d) shall be fixed by agreement between the claimant and his employer at a rate that is reasonable in the circumstances.

(8) Where

- (a) the claimant and the employer do not agree as to the value of the benefits referred to in paragraph (6)(d), or
 - (b) in the opinion of an officer of the Commission the value fixed for those benefits is not reasonable,
- the value shall be determined by the Commission.

(9) The value of living quarters referred to in paragraph (6)(d) includes the value of any heat, light, telephone or other benefits included with those living quarters.

(10) Where the value of living quarters is determined by the Commission, it shall be computed on the rental value of similar living quarters in the vicinity or district.

(11) Where the remuneration of a claimant is not pecuniary or is only partly pecuniary and the whole or part of the non-pecuniary remuneration consists of any consideration other than living quarters and board furnished by the employer, the value of that consideration shall be included in determining his income.

(12) For the purposes of this section, living quarters includes rooms or any other living accommodation.

Allocation of Earnings for Benefit Purposes

Sec. 58. (1) The earnings of a claimant as determined under section 57 shall be allocated to weeks in the manner described in this section and for the purposes mentioned in subsection 57(2) shall be the earnings of the claimant for those weeks.

(2) Where the period for which earnings of a claimant are payable does not coincide with a week, the earnings shall be allocated to any week that is wholly or partly in the period in the proportion that the number of days worked in the week bears to the number of days worked in the period.

(3) Wages or salary payable to a claimant in respect of the performance of services shall be allocated to the period in which the services were performed.

(4) Wages or salary payable to a claimant under a contract of employment without the performance of services and monies payable in consideration of a claimant returning to or commencing work with an employer shall be allocated to the period for which such wages, salary or monies, as the case may be, are payable.

(5) Retroactive payments of wages, moneys or other remuneration in lieu of wages awarded to a dismissed employee, whether he is reinstated or not, shall be allocated to such number of weeks or portion thereof for which the retroactive payments are awarded, beginning with the week in which his dismissal occurs, as will ensure that the claimant's earnings in each of those weeks, except the last, are equal to the weekly rate of his normal earnings from his employer or former employer.

(6) The earnings of a claimant who is self-employed, other than in farming, or of a claimant whose earnings are by way of participation in profits or on the basis of a commission, shall be allocated to the week in which the services that gave rise to those earnings are performed and, where no services are performed, allocated to the week in which the transaction that gave rise to the earnings occurred.

(7) The earnings of a claimant who is self-employed in farming shall be allocated to the week in which the transaction that gave rise to the earnings occurred.

(8) Where a claimant works on a Saturday through midnight into Sunday the earnings from that work shall be allocated to the week in which

- (a) the Sunday falls, if the time worked on the Sunday equals or exceeds the time worked on the Saturday, and
- (b) the Saturday falls, if the time worked on the Saturday exceeds the time worked on the Sunday.

(9) Earnings paid or payable as,

- (a) bonuses or gratuities, other than as a result of a lay-off or separation from employment, or

(b) wages in lieu of notice, at the time of a claimant's lay-off or separation from employment or prior thereto in contemplation of such lay-off or separation, shall, subject to this section, be allocated to the period for which those earnings are payable.

(10) Where the earnings described in subsection (9) are payable in a lump sum and are not allocated to specific weeks, they shall be allocated to such a number of consecutive weeks as will ensure that the claimant's earnings in each week, except the last, from his employer or former employer are equal to the weekly rate of his normal earnings from that employer and the first of those weeks shall be the week in which the lay-off or separation occurs.

(11) Sick or maternity leave pay, payments under a group sickness or disability wage loss indemnity plan, workmen's compensation temporary partial payments and payments referred to in paragraph 57(2)(d) shall be allocated to the week in respect of which such payments are paid or payable.

(12) Pay received by a claimant in respect of a holiday or non-working day that is observed as such by law, custom or agreement or a holiday or non-working day attendant upon a holiday or non-working day that occurs at the establishment of the employer or former employer from whom the claimant receives that pay, shall be allocated to the week in which that day occurs.

(13) Holiday pay or vacation pay of a claimant shall be allocated to such number of consecutive weeks, beginning with the first week that is wholly or partly within his holiday period, as will ensure that the claimant's earnings in each of those weeks, except the last, are equal to the weekly rate of his normal earnings from his employer or former employer.

(14) Notwithstanding subsection (13), holiday pay or vacation pay, other than for a day referred to in subsection (12),

(a) that is paid or payable to a claimant at the time of his lay-off or separation from employment or prior thereto in contemplation of the lay-off or separation, and

(b) that is not allocated to any specific weeks of holidays or vacation that occurred prior to the lay-off or separation shall be allocated to such number of consecutive weeks, beginning with the first week in which the lay-off or separation occurs, as will ensure that the claimant's earnings in each of those weeks, except the last, are equal to the weekly rate of his normal earnings from his employer or former employer.

(15) Notwithstanding subsection (14), where a general continuous holiday period occurs at the place where a claimant is employed and that holiday period commences within six weeks after the claimant's lay-off or

separation, holiday pay or vacation pay described in subsection (14) shall be allocated to weeks as described in that subsection beginning with the first week of the continuous holiday period.

(16) Where the earnings described in subsections (9) and (14) are paid after a claimant's lay-off or separation occurs and have not been allocated pursuant to subsections (9), (10), (13), (14) or (15), those earnings shall be allocated to such number of consecutive weeks, beginning with the week in which those earnings are paid, as will ensure that the claimant's earnings in each of those weeks, except the last, are equal to the weekly rate of his normal earnings from his employer or former employer.

(17) Notwithstanding subsections (9), (10) and (16), earnings described in subsection (9) or (10) shall not be allocated to any week that occurs more than thirty-two weeks after the week in which the lay-off or separation, in respect of which those earnings are paid or payable, occurs.

(18) Where a claimant has earnings to which subsections (1) to (17) do not apply, those earnings shall be allocated,

(a) if they arise from the performance of services, to the period in which the services were performed, and

(b) if they arise from a transaction, to the week in which the transaction occurred.

(19) For the purposes of this section, a fraction of a dollar that is equal to or greater than one-half shall be taken as a dollar and a fraction that is less than one-half shall be disregarded.

(20) Earnings that are paid or payable pursuant to a labour arbitration award, court judgement or otherwise shall be allocated to such number of consecutive weeks or portion thereof for which the payments are awarded as will ensure that the claimant's earnings in each of those weeks, except the last, are equal to the weekly rate of the normal earnings that would have been paid to him during those weeks.

APPENDIX IV

UI Act and Regulations: Insurable and Excepted Employment (April, 1981)

ACT:

INSURABLE EMPLOYMENT Meaning of insurable employment

Sec. 3. (1) Insurable employment is employment that is not included in excepted employment and is

- (a) employment in Canada by one or more employers, under any express or implied contract of service or apprenticeship, written or oral, whether the earnings of the employed person are received from the employer or some other person and whether the earnings are calculated by time or by the piece, or partly by time and partly by the piece, or otherwise;
- (b) employment in Canada as described in paragraph (a) under Her Majesty in right of Canada;
- (c) service in the Canadian Forces or in any police force;
- (d) employment included in insurable employment by regulation under section 4; and
- (e) employment in Canada of an individual as sponsor of a project under programs designed primarily to create employment and conducted by the government of Canada pursuant to any Act of Parliament.

Excepted employment

(2) Excepted employment is

- (a) employment of a person who is sixty-five years of age or over;
- (b) employment of a casual nature other than for the purpose of the employer's trade or business;
- (c) employment of a person by his spouse;
- (d) employment where the employee is a dependant of the employer;
- (e) employment in Canada under Her Majesty in right of a province;
- (f) employment in Canada by the government of a country other than Canada or of any political subdivision thereof;
- (g) employment in Canada by an international organization;
- (h) employment that constitutes an exchange of work or services; and
- (i) employment included in excepted employment by regulation under section 4.

Presumption

(3) An individual referred to as sponsor of a project in paragraph (e) of subsection (1) shall, for the purposes of this Act and the regulations, be deemed to be an employer in respect of his remuneration from the project.

Regulations to Extend Insurable Employment

Sec. 4. (1) The Commission may, with the approval of the Governor in Council, make regulations for including in insurable employment

- (a) any employment outside Canada or partly outside Canada that would be insurable employment if the employment were in Canada;
- (b) the entire employment of a person who is engaged under one employer partly in insurable employment and partly in other employment;
- (c) any employment that is not employment under a contract of service if it appears to the Commission that the terms and conditions of service of and the nature of the work performed by persons employed in that employment are similar to the terms and conditions of service of and the nature of the work performed by persons employed under a contract of service;
- (d) employment in Canada by Her Majesty in right of a province if the government of the province waives exception and agrees to insure all its employees engaged in such employment;
- (e) employment in Canada by the government of a country other than Canada or of any political subdivision thereof if the employing government consents thereto;
- (f) employment in Canada by an international organization if the organization consents thereto; and
- (g) the term of an office as defined in the *Canada Pension Plan*.

(2) The Commission may, with the approval of the Governor in Council and subject to affirmative resolution of Parliament, make regulations for including in insurable employment any person who is employed or otherwise engaged in a business within the definition of "business" in the *Income Tax Act*.

Regulations re excepted employment

(3) The Commission may, with the approval of the Governor in Council, make regulations for excepting from insurable employment

- (a) any employment if it appears to the Commission that by reason of the laws of a country other than Canada a duplication of contributions or benefits will result;
- (b) the entire employment of a person who is employed by one employer partly in insurable employment and partly in other employment;
- (c) any employment, if it appears to the Commission that the nature of the work performed by persons employed in that employment is similar to the nature of work performed by persons employed in employment that is not insurable employment;
- (d) the employment of a person by a corporation if he or his spouse, individually or in combination, controls more than forty per cent of the voting shares of that corporation;
- (e) the employment of a member of a religious order who has taken a vow of poverty and whose remuneration is paid directly or by him to the order;
- (f) any employment in which persons are employed to an inconsiderable extent or for an inconsiderable consideration;
- (g) any employment provided under section 38 or under regulations made under section 37; and
- (h) any employment with an employer in which persons are employed for less than twenty hours in a week or in which the earnings of persons are less than thirty per cent of the maximum weekly insurable earnings.

Defining certain expressions

(4) The Commission may, with the approval of the Governor in Council, make regulations defining, for the purposes of section 3 and this section, the expressions "government", in relation to a government of a country other than Canada or of a political subdivision thereof, "international organization", "relative", "casual nature" and "dependant".

Extent of authority

(5) A regulation made under this section may be conditional or unconditional, qualified or unqualified, and may be general or restricted to a specified area, a person or a group or class of persons.

REGULATIONS:

INSURABLE AND EXCEPTED EMPLOYMENT

Employment Included in Insurable Employment

Sec. 8. (1) Employment in Canada by Her Majesty in right of a province that would, except for paragraph

3(2)(e) of the Act, be insurable employment is included in insurable employment if the government of the province enters into an agreement with the Commission whereby it agrees to waive exception and to insure all employees engaged in such employment.

(2) For greater certainty, employment in Canada by Her Majesty in right of a province, for the purposes of subsection (1), only includes employment in Canada of employees who are appointed and remunerated under the *Public Service Act* or *Civil Service Act* of a province or who are employed in Canada by a corporation, commission or other body that is for all purposes, an agent of Her Majesty in right of the province.

Sec. 9. (1) Employment in Canada of any person by the government of a country other than Canada or of any political subdivision thereof or by an international organization that would, except for paragraphs 3(2)(f) and (g) of the Act, be insurable employment, may be included in insurable employment if the employing government or the international organization, as the case may be, consents thereto in writing and the commission concurs therein.

(2) Where a consent or a concurrence has been given pursuant to regulations made under the former Act and has not been revoked, it shall be deemed to be a consent or concurrence given pursuant to this section.

Sec. 10. (1) Employment on a ship or vessel outside Canada or partly outside Canada that would be insurable employment if the employment were in Canada, is included in insurable employment if that employment is

- (a) on a ship or vessel of Canadian registry or licence, except where that ship or vessel is regularly employed in voyages between ports outside Canada and has been chartered to a person resident outside Canada, or
- (b) on a ship or vessel, other than a ship or vessel of Canadian registry or licence,
 - (i) that has been chartered to a person resident in Canada and that is regularly employed in voyages from a port in Canada,
 - (ii) that is principally controlled in Canada and regularly employed in voyages from a port in Canada and the owner or managing owner thereof resides or has a place of business in Canada, or
 - (iii) where employment thereon is subject to the provisions of the Act by virtue of an agreement between the Government of Canada and the government of the jurisdiction in which that ship or vessel is registered.

Sec. 11. The employment of a person outside Canada, other than a person employed on a ship or vessel as described in section 10, is included in insurable employment where that person

- (a) normally resides in Canada;

- (b) is employed outside Canada or partly outside Canada by an employer who is resident or has a place of business in Canada;
- (c) would be employed in insurable employment if such employment were in Canada; and
- (d) is not employed in employment that is insurable under the laws of the country in which he is employed.

Sec. 12. Employment in any of the following employments, unless it is excepted employment under subsection 3(2) of the Act or excepted from insurable employment by any other provision of these Regulations, is included in insurable employment:

- (a) employment of a union member by his union in conducting union business, other than picketing in a labour dispute;
- (b) employment of a person as an apprentice or trainee notwithstanding that the person does not perform any services for his employer;
- (c) employment of a person as a clergyman or member of a religious order;
- (d) employment of a person in connection with a barbering or hairdressing establishment, where that person
 - (i) provides any of the services that are normally provided therein, and
 - (ii) is not the owner or proprietor thereof;
- (e) employment of a person as a driver of any taxi, commercial bus, school bus or any other vehicle that is used by a business or public authority for carrying passengers, where that person is not the owner of the vehicle or the proprietor or operator of the business or public authority;
- (f) the position of a person who holds an office, as defined in the *Canada Pension Plan*,
 - (i) in or under any department or other portion of the Public Service of Canada specified in Schedule I of the *Public Service Staff Regulations Act* or Schedules B and C of the *Financial Administration Act*, or
 - (ii) where the person
 - (A) is appointed to the office and is remunerated therefor under the *Public Service Act* or *Civil Service Act* of a province that, pursuant to subsection 8(1), has agreed to insure all of its employees, or
 - (B) holds the office in or under a corporation, commission or other body that is for all purposes an agent of Her Majesty in right of a province referred to in clause (A); and
- (g) employment of a person who is placed in that employment by a placement or employment agency to perform services for and under the direction and control of a client of the agency where that person is remunerated by the agency for the performance of such services.

Employments Excepted from Insurable Employment

Sec. 13. (1) Subject to subsection (2), the employment with an employer in any week of a person whose cash earnings are less than 20 per cent of the maximum weekly insurable earnings and who is employed for less than 15 hours is excepted from insurable employment.

(2) Where the cash earnings of a person for a pay period described in any of the following paragraphs are paid or payable to him otherwise than in respect of weeks, subsection (1) does not apply to the employment of that person during any such pay period:

- (a) a pay period that is a multiple of a week where
 - (i) he has cash earnings for each week in the pay period, and the cash earnings for the pay period are equal to or exceed an amount that is a like multiple of the amount referred to in subsection (1), or
 - (ii) he is employed in each week in the pay period and the total number of hours of employment in the pay period is equal to or exceeds a number of hours that is a like multiple of 15;
- (b) a pay period that is a semi-monthly pay period where
 - (i) he has cash earnings for each week or part of a week that falls in the pay period, and the cash earnings for the pay period are equal to or exceed an amount that is $2\frac{1}{6}$ times the amount referred to in subsection (1), or
 - (ii) he is employed in each week or part of a week that falls in the pay period, and the total number of hours of employment in the pay period is 33 hours or more; or
- (c) a pay period that is a monthly pay period where
 - (i) he has cash earnings for each week or part of a week that falls in the pay period, and the cash earnings for the pay period are equal to or exceed an amount that is $4\frac{1}{3}$ times the amount referred to in subsection (1), or
 - (ii) he is employed in each week or part of a week that falls in the pay period, and the total number of hours of employment in the pay period is 65 hours or more.

Sec. 14. The following employments are excepted from insurable employment:

- (a) employment of a person by a corporation if he or his spouse, individually or in combination, controls more than forty per cent of the voting shares of that corporation;
- (b) employment of an exchange teacher if that teacher is not remunerated by an employer residing in Canada;

- (c) employment of a person in the reserve force of the Canadian Forces unless it is employment on continuous duty or for a period of special duty in excess of thirty days;
- (d) employment of a person who is a clergyman or member of a religious order if
 - (i) his only employment is as an itinerant evangelist paid by money collected from the public, or
 - (ii) he has taken a vow of perpetual poverty and his remuneration is paid directly or by him to the order;
- (e) employment of a person if he is not paid any of his remuneration in cash;
- (f) employment of a person if premiums are payable in respect of his employment under
 - (i) the unemployment insurance law of any state of the United States or the District of Columbia, by reason of the agreement between Canada and the United States respecting unemployment insurance set out in Schedule I; or
 - (ii) the *Railroad Unemployment Insurance Act* of the United States;
- (g) employment in Canada of a person who resides outside Canada if premiums are payable in respect of services performed by him in Canada under the unemployment insurance laws of a country other than Canada;
- (h) employment of a person for the purpose of
 - (i) abating a disaster, or
 - (ii) a rescue operation,
 if he is not regularly employed by the employer who employs him for that purpose; and
- (i) employment of a claimant on a job creation project approved by the Commission pursuant to section 38 of the Act.

Sec. 15. (1) The following employments are, subject to subsection (2), excepted from insurable employment:

- (a) employment, other than as an entertainer, of a person in connection with a circus, fair, parade, carnival, exposition, exhibition or similar activity if that person
 - (i) is not regularly employed by the employer who employs him in that employment, and
 - (ii) is employed by that employer for less than seven days in a year;
- (b) employment of a person by Her Majesty in right of Canada, the government of a province or a municipality in respect of any census enumeration if that person
 - (i) is not regularly employed by the employer who employs him for that purpose, and
 - (ii) is employed by that employer in that employment for less than twenty-five days; and
- (c) employment of a person by Her Majesty in right of Canada, the government of a province, a mu-

nicipality or a school board in connection with any referendum or election to public office by popular vote if that person

- (i) is not regularly employed by the employer who employs him for that purpose, and
- (ii) is employed by that employer in that employment for less than twenty-five days.

(2) Where an employment that is excepted from insurable employment under paragraph (1)(a), (b) or (c) is for a number of days that exceeds the number of days mentioned in that paragraph, that employment is insurable from its commencement.

Sec. 16. (1) The employment of a person in agriculture, an agricultural enterprise or horticulture by an employer who

- (a) pays the employee a remuneration that is less than two hundred and fifty dollars in cash in a year, or
 - (b) employs the employee on terms providing for payment of cash remuneration for a period of less than twenty-five working days in a year
- is excepted from insurable employment.

(2) Subsection (1) does not apply to any continuous period of employment of a person that falls in more than one year if the person is paid two hundred and fifty dollars or more in cash therefore and is employed therein for twenty-five or more working days.

(3) Where, in an employment that is excepted from insurable employment under subsection (1), the employer

- (a) pays an employee a remuneration that is two hundred and fifty dollars or more in cash in a year, and
 - (b) employs an employee on terms providing for payment of cash remuneration for a period of twenty-five working days or more in a year,
- the entire employment of the employee by the employer in that year is insurable.

(4) For the purpose of this section, "agriculture" means the operations of farming when carried on on a farm for the benefit of any person who is a farmer and, without limiting the generality of the foregoing, includes

- (a) clearing land for the purposes of farming,
- (b) cultivation of the soil,
- (c) conservation of the soil, including the construction, maintenance and operations of tile drainage systems, ditches, canals, reservoirs or waterways exclusively for the purposes of farming,
- (d) harvesting, storing or grading any natural product of farming,
- (e) preparing land for growing wild berries and the harvesting of wild berries,
- (f) raising bees and producing honey,
- (g) breeding or raising horses, beasts of burden, cattle, sheep, goats, swine, furbearing animals and birds of any kind or producing eggs,

- (h) dairy farming and the processing of milk, butter or cheese on the farm where it is produced,
- (i) producing maple sap, maple syrup or maple sugar, when carried on on a farm for the benefit of any person who is a farmer,
- (j) offering for sale or selling, off the farm for the benefit of the farmer, any of the products of the operations described in subparagraphs (a) to (i), if the offering for sale or selling is incident to those operations, and
- (k) exhibiting, advertising, assembling, freezing, storing, grading, processing, packing and transporting, off the farm for the benefit of the farmer, the products described in subparagraph (j), if those operations are incident to the offering for sale or selling described in that subparagraph;

“agricultural enterprise” means the business of agriculture carried on for the benefit of any person who is a farmer;

“horticulture” means

- (a) the operations relating to the propagating, producing, raising or harvesting of
 - (i) legumes, flowers, shrubs or ornamental grasses, and
 - (ii) seeds, seedlings, grafts and cuttings of legumes, flowers, shrubs or ornamental grasses, and
- (b) the operations relating to landscape gardening where the landscape gardening is incident to the carrying on of
 - (i) any of the operations described in subparagraph (a), or
 - (ii) agriculture,

and includes all the services incident to the carrying on of any of the operations described in paragraph (a) or (b) if those services are performed at the place where the operations are carried on.

APPENDIX V

UI Act: Entrance Requirements for Regular Benefits (1981)

ELIGIBILITY

When benefit payable

Sec. 17. (1) Unemployment insurance benefits are payable as provided in this Part to an insured person who qualifies to receive such benefits.

Qualification

- (2) An insured person who is a new entrant or re-entrant to the labour force qualifies to receive benefits under this Act if he
- (a) has had twenty or more weeks of insurable employment in his qualifying period; and
 - (b) has had an interruption of earnings from employment.

Idem

- (3) An insured person, other than a person referred to in subsection (2) or (4), qualifies to receive benefits under this Act if he
- (a) has, subject to subsections (6) and (7), had fourteen or more weeks of insurable employment in his qualifying period; and
 - (b) has had an interruption of earnings from employment.

Idem

- (4) Subject to subsection (5), an insured person to whom benefits, other than work sharing benefits under section 37, have been paid or were payable in his qualifying period, qualifies to receive benefits under this Act if he
- (a) has, subject to subsections (6) and (7), had the number of weeks of insurable employment shown in Table 4 of Schedule A in his qualifying period; and
 - (b) has had an interruption of earnings from employment.

Limitation

- (5) Unless otherwise prescribed, subsection (4) does not apply to an insured person where the regional rate of unemployment that applies to him is greater than eleven and one-half per cent.

Qualifying weeks

- (6) During the period of fifty-four months that begins on December 4, 1977, the number of weeks that an insured person, other than a new entrant or re-entrant to the labour force, shall have in order to qualify for benefits shall be based on the regional rate of unemployment that applies to him, and
- (a) in the case of an insured person other than one mentioned in subsection (2) or (4), shall be the number of weeks shown in Table 3 of Schedule A; and
 - (b) in the case of an insured person to whom benefits, other than work sharing benefits under section 37, have been paid or were payable in his qualifying period, shall be the number of weeks shown in Table 5 of Schedule A.

Extension

- (7) The Commission may, with the approval of the Governor in Council and subject to affirmative resolution of Parliament, extend the period of fifty-four months mentioned in subsection (6).

Definition of "new entrant..."

- (8) For the purpose of this section, "new entrant or re-entrant to the labour force" means a person who does not qualify under subsection (4) of paragraph (6)(b) and who has had less than fourteen
- (a) weeks of insurable employment,
 - (b) weeks in respect of which benefits have been paid or were payable to him, or
 - (c) prescribed weeks that relate to employment in the labour force, or any combination thereof in the period of fifty-two weeks that immediately precedes the commencement of his qualifying period.

Computation of weeks

- (9) For the purposes of subsection (8), a week that is taken into account under any of paragraphs (8)(a) to (c) may not be taken into account under any other of those paragraphs.

APPENDIX VI

Description of UI Micro-Simulation Model

Introduction

This description outlines the general purpose, methodology and output of the UI micro-simulation model used to estimate the impact of changes in the UI Act.

Purpose of the model

The computer-based model is designed to permit the analysis of various types of UI policy changes in terms of projected costs and savings for the program and socio-economic effects. The model is capable of simulating, for each individual, the effect of modifications in benefits, eligibility and entitlement as a result of policy changes in the UI program.

The output generated by the model consists of sets of tables of aggregated results for several socio-economic characteristics such as province, age, sex, etc., for a particular change or set of changes in the UI Act.

Sources of data

The model uses data from several sources for each individual as well as specifications for each particular simulation. The former include a modified file of UI administrative data (the Status Vector File), a file of T-4 Supplementary data from Revenue Canada (the T-4 Supp File), and the Record of Employment (ROE) File. The latter include a file of regional unemployment rates from Statistics Canada and a set of parameters for controlling the operation of the model. All files on individuals are matched on the basis of Social Insurance Numbers (SIN).

UI claimant file

The file of UI claimants (the Status Vector File) is usually a one per cent sample (about 30,000 claimants) of those people who appear on the Benefit-Overpayment (BNOP) File. The sample can be increased to 10 per cent if necessary for examining effects on small groups in the population. The file contains the claimant's entire claim history in a week by week format, and, for a 10 per cent sample, typically contains about 300,000 claims for a year. This file is updated quarterly and contains over 50 variables such as SIN, age, sex, dependants (up

to 1975), region, province, benefits paid both weekly and *in total*, earnings declared, and disqualifications and disentitlements imposed.

T-4 supplementary file

The T-4 Supp File is used when information on UI premiums paid and gross earnings received is required. For example, in the option for additional insurance coverage for higher income earners, the average weekly gross earnings (AWGE) must be greater than the average weekly insured earnings (AWIE) to be eligible for additional benefits. The AWIE is available from the Status Vector File but the AWGE must be calculated based on information in the T-4 Supp and ROE files.

Record of Employment file

The ROE is used to provide information not available from the Status Vector File, such as the employment history prior to the qualifying period of the claim and the reason for separation before establishing a claim. For example, as established in Bill C-14 a new entrant claim is rejected if the number of weeks of activity is less than 14, where weeks of activity are defined as the sum of insured weeks, benefit weeks payable and other prescribed weeks in the pre-qualifying period. While the last two values are available from the Status Vector File the insured weeks are only available from the ROE File for the pre-qualifying period.

Regional unemployment rates

This file contains several sets of regional (48 economic regions) unemployment rates used for simulating the impact of changes in the rates upon various policy choices. Both actual historical and projected rates can be used entirely independently of other changes to the simulation model.

Methodology

The simulation model uses the historical claimant information as a base and applies to each individual the set of options whose impact is to be analysed. The changes in the claims which result are compared with the pre-simulation information and the impact is tabulated.

Simulator structure

The simulator has evolved over several years to handle successive amendments to the UI Act (Bills C-69, C-27, and C-14). The output from the C-27 part of the simulator is used as the input for the C-14 simulations to bring all claims to a common legislative base. The simulator has two main functional parts, the simulation program, and the report program. Earlier versions of the simulator were written in COBOL and FORTRAN while the latest is written in PL/1.

The C-14 simulator is modular with a main routine and some 17 subroutines, each responsible for a separate function in the simulation process and each controlled by parameters which can be changed from simulation to simulation. These routines are:

Set up —read the regional unemployment rates
—read the controlling parameters
—verify the parameters

Read the data file(s)

Process each claim—calculate the basic decision data
—apply repeater rules
—apply new entrants rules
—postpone claims
—modify the benefit rate
—recalculate the entitlement
—reconstruct the modified claim
—accumulate summary data

Write Status Vector File and/or workfiles

Print summary counts

Other routines are designed and integrated into this system as required for examining proposed amendments such as voluntary quit or misconduct penalties, earnings allowance changes, benefit structure and entrance requirement changes in such factors as implementation dates, behavioural assumptions as well as specific option values like benefit rate, earnings limit or the 11.5 per cent regional unemployment rate limitation.

Because of the functional separation inherent in the simulation model, major changes can be made in any

subroutine without affecting the direct function of any other subroutine, although there may be indirect effects. For example, the rejection of a claim for a person who voluntarily quits may result in their next claim being affected by new entrant rather than repeater qualification rules.

Processing

The simulation program reads in the controlling parameters for a particular simulation and the specified regional unemployment rates files. It then stores this information for use by other parts of the simulator. The Status Vector File is read and all claims and associated information (ROE or T-4 Supp) for an individual are stored. According to the parameters specified, each claim is examined to see if it overlaps the time period of a proposed legislative change. Any selected claim is then modified to conform to the proposed changes. This modification can range from the change in status of a week from a non-benefit week to a benefit week to the complete disappearance of a claim. Once all claims for a person have been processed the simulator writes the simulated claims to a file for tabulation and reads the information for the next person. When all people have been processed the simulator prints a table of summary counts.

The reporter program reads both the pre-simulation and post-simulation records and summarizes the changes which have occurred in claims, benefit weeks and benefit dollars by a number of variables including month, phase, region, province, age, sex, etc.

Output

The micro-simulation model produces four kinds of output: the summary counts of people, claims and records; the reporter tables of the simulation impact; a file of simulated status vectors and, optionally, a workfile containing summary information for each claim of total benefits, total benefit weeks, etc. in a specified accounting period (usually a year). The summary workfile is used when tabulations other than those produced by the report are required.

APPENDIX VII

Basic Assumptions for Estimating the Financial Impact of the Indicative Package

The micro-simulation estimates expected impacts of each proposed change to the UI Act in percentage terms. In order to convert these results from percentages to dollar values or numbers of people potentially affected, we need forecasts or projections for a particular fiscal or calendar year.

All the financial impacts presented in the last section of the report refer to the 1983-84 fiscal year. It is assumed that, if the current legislation was still in force and if the national unemployment rate was 7.5 per cent, total program costs would be \$7,266 million in the fiscal year. Of that amount, \$6,500 million would be spent in UI benefits (i.e. regular, special and fishing benefits) and \$766 million in administration expenditures (i.e. for the payments of UI benefits and employment services). The

federal government share of total program costs would be \$1,350 million (or 18.6 per cent), and the private sector share would be \$5,916 million (or 81.4 per cent).

It is also assumed that in the 1983-84 fiscal year 2,445,000 initial and renewal claims will be established and allowed.

Estimates regarding premium revenues assume the current level of \$1.80 per \$100 of insurable earnings for employees and \$2.52 for employers.

Finally, it should be noted that changes in these assumptions would alter the estimated financial impacts of the proposed program changes.

APPENDIX VIII

Members of the Unemployment Insurance Review Task Force

Executive Coordinator*

Sid Gershberg

Research staff

Tom Brogan
Gary Dingledine
Marcelle Filiatrault
Rick Henderson

Soren Nielsen
Derwyn Sangster
Clarence Simard

Support staff

Claudette Bilodeau
Mary Burke
Evans Enyolu
Faye Gibbs

Audrey Lavoie
Jim Lavoie
Josie McCarthy
Helen Wilson

The Task Force wishes to thank the following people for their help in producing the report.

MariGayl Lanctôt,
English Editor
Raphaël Pilon, French Editor
Ilidia Preto, Word Processing
Sharon Brown, Clerical
Lida Hora, Clerical

Hélène Brisson, Chief
Translation Services
Ginette Côté, Revisor
Benoît Côté, Translator
René Fitzgérald, Translator

* From the establishment of the Task Force in July 1980 until December 31, 1980, Harry J. Hodder was Executive Co-ordinator of the Task Force. Mr. Hodder left to take a position with the Inter-American Development Bank in Washington, D.C.



